CONSTRUCTING PILLARS OF ISLAMIC BANKING: CREATING AND SUSTAINING SPECIALIZED FINANCIAL CENTERS IN BAHRAIN AND THE UNITED STATES

A Thesis

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ABSTRACT

The Islamic financial industry has risen out of Muslim discomfort with the practices of conventional finance – interest-based trading, speculation, inequitable transactions, and investment in products that violate the religion – and posits itself as an alternative, morally grounded economic system. The 2008 global financial crisis sparked renewed interest in the sector as academics investigated the geographic form of this alternative financial system. Although primarily concentrated in countries with Muslim majorities, Islamic banking and finance (IBF) has become a global industry representing both a decentering of the global financial architecture and the emergence of an urban network that resides beyond the confines of traditional world city literature. While geographers have identified the "Mecca's" of the Islamic finance industry – one of which is Bahrain – there remains a need to investigate the constituent elements and processes that define Islamic finance and determine its spatial organization, as well as the factors which differentiate the global landscape of IBF from that of conventional finance. This includes more traditional locational factors, such as the presence of IBF firms and financial professionals, consumer markets and regulators, but also more dynamic and ephemeral elements, such as the significance of global *Shari'a* scholar networks, the nature of secondary bond (*sukuk*) markets, and the role of governing bodies. This lacuna is especially important in light of the industry's expansion into new centers in the West. As such, it is important to not only examine these elements in the context of established, leading hubs, but also in the developing Western market.

Therefore, this thesis examines Bahrain as the industry's leading center, and the United States as an emerging hub to describe the factors necessary to create and sustain centers of IBF. This is accomplished by presenting results from a large, web-based firm survey designed to elicit information on the defining features of IBF hubs. This information is presented alongside key informant interviews with local and international industry actors to expand upon the construction of these centers and examine the challenges and opportunities facing them. I find that while Bahrain's entrenched institutional advantages have preserved its role as a center in the Islamic financial landscape, ongoing political instability and the increasing attractiveness of new and emerging centers are threatening this role. As the country navigates the current social and political unrest, questions are raised as to what it takes to be an Islamic financial center. Additionally, I find that despite growing US demand for Islamic financial products, the growth country's remains stagnant as it faces significant challenges. In particular, regulatory differences between conventional and Islamic financial institutions and the pervasiveness of Islamophobia present significant barriers to the industry's growth.

NOMENCLATURE

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AIBI	Association of Islamic Banking
APS	Advanced producer services
GCC	Gulf Cooperation Council
GCIBFI	General Council of Islamic Banks and Financial Institutions
GIFF	Global Islamic Finance Forum
IAIB	International Association of Islamic Banks
IBF	Islamic banking and finance
IFC	International Financial Center
IFSB	Islamic Financial Services Board
IICRCA	International Islamic Center for Reconciliation and Commercial Arbitration
IIFM	International Islamic Financial Market
IIRA	Islamic International Rating Agency
IRTI	Islamic Research and Training Institute
ISIL	Islamic State of Iraq and the Levant
ISRA	International *Shari'a* Research Academy
LMC	Liquidity Management Center
PLS	Profit/loss sharing
SSB	*Shari'a* Supervisory Board

UAE	United Arab Emirates
UIFC	University Islamic Financial Corp.
US SIF	Forum for Sustainable and Responsible Investment

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1. INTRODUCTION

The Islamic banking and finance (IBF) sector formed in the 1970's as an alternative to conventional finance in response to growing unease within the Muslim community (Wilson 1997). Born out of the Islamism movement and constructed upon the principles of *Shari'a* law, IBF seeks to blend the religious principles of the Muslim faith with modern financial practices to create a moral alternative to the traditional financial sector. Despite its humble origins, the Islamic finance sector has become a global industry with assets exceeding $1.6 trillion dollars and has successfully convinced the Muslim world that its products are the "'appropriate' way of banking, financing projects, and getting insurance" (Bassens et al. 2011a, 339). With prohibitions on many of the practices deemed to have facilitated the 2008 financial collapse – unfair contract structures, speculation, and debt-based trading – the IBF industry has since experienced a period of unparalleled growth; almost two times that of conventional finance with Pricewaterhouse Coopers predicting that the industry will sustain this growth with assets reaching $2.67 trillion by 2017 (Levitov and O'Donnell 2014).

Much of the literature on the geography of finance focuses on describing the global nature of money and the hierarchy of key centers within the broader global urban network. The current literature on world cities of finance has gone to great lengths to identify and categorize the key hubs of global finance (e.g. Poon 2003). In particular, these cities are characterized by large concentrations of multinational firms in advanced producer services – industries that require high levels of localized knowledge transactions. The 2008 global financial crisis sparked renewed interest in the field as academics investigated the geographic form of the alternative (Islamic) financial system. In order to present a more complete picture of the world city network, researchers have investigated alternative networks of corporations that reside outside the confines of traditional world city networks representing what Pollard and Samers (2007) term postcolonial political economies.

Therefore, the aim of this thesis is twofold. First, I examine Islamic finance as an alternate to the conventional financial system, investigating the determinants of competitiveness endemic to the IBF industry in contrast to those of conventional finance in Western world cities. More specifically, I explore how Bahrain, as a leading IBF hub, navigates domestic and international challenges to maintain and sustain its leadership role. Second, in light of the industry's continued expansion, I examine how this alternate system has taken root in traditional (conventional) financial centers and discuss the opportunities and barriers this expansion faces.

Building on its history as an offshore banking center, Bahrain has become one of the global leaders of IBF (Wilson 2009). Deemed the "undisputed Mecca" (41) of the industry, Bahrain and its capital city, Manama, are perched atop the urban hierarchy of Islamic financial centers (Bassens et al. 2010). Although the literature has successfully located Bahrain as one of the primary centers of the IBF industry, it has been less successful explaining how these cities become the key nodes of the industry and why they persist. The recent social and political unrest stemming from the Arab Spring, as well as rising regional and global competition pose serious challenges to the country's future as the undisputed leader.

The rise of Islamic finance as a global industry represents both a decentering of the global financial architecture, and the emergence of an urban network that resides beyond the confines of traditional world city literature. However, in wake of the financial collapse and global recession, the financial architecture of the Islamic finance industry has shifted. In October of 2013, British Prime Minister David Cameron announced the formation of an Islamic bond, known as *sukuk*, at a meeting of the World Islamic Economic Forum in London. The bond, issued in June of 2014 and valued at over $330 million, is the first of its kind issued in a Western country and represents the increasingly global nature of Islamic finance, as well as London's desire to become a key location of Islamic banking and finance (IBF) as the industry emerges in Western markets. Increasingly, the vast oil wealth flooding the market and the industry's financial performance during and after the financial recession has piqued the interest of Western markets. Recently, scholars have identified the United States, in particular New York, as an emerging IBF hub (see Bassens et al. 2010, 2011b, 2012; Pollard and Samers 2013); however, little research has examined the opportunities and barriers that expansion into traditional financial centers, such as the US, present.

In order to address these gaps, the thesis present a pilot study consisting of a large-scale web based survey of 48 IBF compliant financial firms, accountancy agencies, law practices, and commercial banks in Bahrain (n=33) and the United States (n=15). The survey elicited information concerning firm structure and characteristics, industry reputation, hiring preferences, and regulatory affiliation. Interviews with 22 IBF practitioners, entrepreneurs, and scholars in both countries (Bahrain = 16; USA= 6) supplement the survey findings and further the understanding of these complex and competing processes. Additionally, these interviews shed further insight on the unique challenges each country faces to developing and maintaining its IBF industry and offers the interviewees' perspectives on the future of IBF.

The thesis proceeds as follows. Section 2 reviews the relevant literature concerning global cities, the geography and history of Islamic finance, and the shifting global architecture of IBF. Section 3 discusses the development of the Islamic finance industry in Bahrain and the United States, while Section 4 describes the methodology used for this pilot study. Section 5 presents the survey results of the pilot study from Bahrain, and Section 6 presents the findings from interviews with IBF practitioners in Bahrain. Lastly, Sections 7 and 8 present the survey and interview results from the US portion of the pilot study and Section 9 concludes the thesis.

2. LITERATURE REVIEW

This section reviews recent literature on three theoretical and historical arenas to inform and position my study of Islamic finance in Bahrain and the United States. First, I review the development of the Islamic finance industry and its origins. Second, I review the geography of world cities and the spatial manifestation of the IBF global network. Third, I review the geography of finance and its changing patterns following the 2008 global financial crisis.

2.1 The Geography of Finance

This sub-section reviews the relevant literature related to the geography of finance. It begins with a discussion of the key aspects of finance and money that allow for the distribution of assets that we see today. The sub-section also explores Fratianni's work on the evolution of financial centers, the relationship between finance and the state, and how this relationship has changed following the recent financial crisis. It concludes by positing Islamic finance as an alternate to the conventional financial system.

2.1.1 Flat, Spiky, and Mountainous?

Finance is perhaps one of the most important elements of modern society, pervading all aspects of daily life. In an ever-globalizing and interconnected world, understanding the geographic form and distribution of the financial system is increasingly important. Increasingly, the events in one financial market have a profound impact on the global economy as individual states, foreign and local financial firms, and local and international institutions interact to produce a multiscalar geography of finance.

Advances in technology and communication have facilitated globalization, thereby leveling the metaphorical playing field of the global economy and enabling more people and places to connect to and compete in the global economy (Friedman 2005). In the 1990s, the rapid pace of globalization led academics to ponder the "end of geography" (O'Brien 1991; 1992) and *The Economist* to declare the "death of distance" (The Economist 1995). In this way, place was becoming less important. However, despite these hyper-globalizing claims, economic activity remains highly concentrated. In fact, the top regions in terms of economic activity produce 43% of the global economic activity while only containing 7% of the world's population (Florida et al. 2008). Therefore, instead of "flattening" out, the world has become "spikier" (24) as higher order economic activities – including finance – have become increasingly clustered in a few urban regions (Florida 2008). Moreover, rather than leveling the playing field, globalization has created a more uneven field in which a limited number of places compete as the convergence of economic activity, human capital and innovation allow cities and regions to rise as "mountains in a flat world" (Rodríguez-Pose and Crescenzi 2008, 375). As such, the tension between globalization and localization is emblematic of the paradox concerning globalization and finance: while the forces of globalization help mitigate the unevenness in the financial system, these same forces help exacerbate it by facilitating the concentration of financial and economic activity in a limited number of places (Dixon 2011).

2.1.2 Finance and the Role of the State

Despite the footloose nature of capital and the speed at which financial transaction take place, finance is still largely characterized by the ‘home bias’ of capital (Clark 2005). Therefore, while the nature of finance has become increasingly global, the majority of capital never leaves its home jurisdiction and remains encased within state boundaries. The home bias of capital highlights the role of the state in the geography of finance. Within the geography of finance, the state occupies four distinct roles (Dicken 2015): i) container of economic activity by exercising autonomy within its own borders and determining the selective permeability of its borders; ii) regulator of the economy through fiscal and monetary policies and laws, thereby setting creating the business environment; iii) competitors which attract and capture firms and high-skill workers to better the economic environment of their country; iv) collaborators which form regional trade agreements that seek to harmonize practices across borders. The differences between how states embody these roles lead to an interconnected variety of capitalisms, or variegated capitalisms (Peck and Theodore 2007).

The relationship between financial firms and the state remains complex and is predicated upon complimentary and competing priorities (Gordon 1988). This dynamic relationship has led to several changes in the form of financial geographies over the years. During 1960s deregulation and market liberalization became commonplace, and the state became increasingly peripheral as firms moved in and out of markets at ease and navigated the geographic variation in tax regimes and regulatory structures (Dicken 2015). However, the recent financial crisis has reversed this trend. While the period before the crisis was marked by the liberalization of global markets, the crisis forced many states to intervene and bail out or nationalize financial institutions (French and Leyshon 2010). These massive bailout schemes fundamentally altered the geography finance as states were forced to borrow from each other to fund the bailout, in the process creating a binary of debtor states and loaner states (Reuben 2010). In this way, the importance of the state can be seen before and after the crisis. Before the crisis the state created the regulatory framework that facilitated the financial collapse. After the crisis the state had to reassert itself and intervene in markets by bailing out the financial sector.

2.1.3 The Chemistry of Finance and the (R)Evolution of Centers

Envisioning the geography of money and finance as analogous to the element mercury provides a useful conceptual metaphor to better understand the form and function of finance as the chemical properties of the element mirror those of finance (Clark 2005). Money, like mercury, has an inherent ‘stickiness’ (Clark 2005, 104) that forces it to coalesce and cluster in pools rather than disperse. To understand the geography of finance, we must examine the nature of these pools, how technology has allowed more participants to enter the market and more places to compete while simultaneously concentrating financial activity in a limited number of places, and the uneven distribution of both finance and access to capital. On a basic level, the clustering of finance stems from an attempt to overcoming the costs associated with transportation and the collection of information (Elliehausen and Wolken 1990). These clusters – located primarily in cities – allow for economies of scale in which firms can pool large quantities of money to facilitate large-scale investment regimes and help overcome the cost of accumulating information concerning customers and potential investments (Fratianni 2009). In addition to overcome transactional costs, finance clusters in cities to take advantage of agglomerative effects. While the menial activities of financial firms – call centers, back offices, and commercial banking – have become increasingly geographically dispersed, the "innovative, customized, and large-scale" activities remain highly concentrated in a few international financial centers (Tschoegl 2000, 22). Two reasons are offered for this. First, clustering allows firms to take advantage of agglomerative effects. In this way, clustering becomes a positive feedback loop where the agglomeration benefits entice more firms to co-locate, which in turn allows for greater innovation and growth. Second, finance clusters in cities to capitalize on advances in infrastructure, telecommunications, favorable political climates, and adequate regulatory environments (Tschoegl 2000). Essentially, proximity to financial centers remains a key element of connection to the global economy.

The increasingly global nature of finance has given rise to a hierarchical system of international financial centers (IFC). While globalization has increasingly decentralized the distribution of these centers, the main centers – New York, London, Tokyo, etc. – remain the gatekeepers of global finance; controlling and managing financial products for individuals, businesses, and governments around the world (Sassens 1999). Historically, three aspects of a city act as preconditions for the formation of these IFCs (Kindleberger 1974): i) the city must have an established banking tradition; ii) the city must have a strong central bank able to effectively enact monetary and fiscal policies; and iii) a strong domestic currency. Once established, these centers are remarkably resilient; however, they are not immune to decline (Fratianni and Spinelli 2006). Instead, the authors argue that the history of finance and its centers has been characterized by evolutions and revolutions. Revolutions are rapid changes in the geography of financial centers resulting from innovations or geopolitical shifts. Meanwhile, evolutions describe the long-term gradual decline of one center and the rise of another. These revolutions and evolutions explain the history of major financial centers from Florence to New York. As financial centers rise and fall, the best practices and policies are bequeathed from one center to the next. In this way, the succession of financial centers is emblematic of what Fratianni (2009) describes as the "long evolutionary chain of finance" (251). While the future of finance remains uncertain, the geographic landscape of centers will almost certainly continue to shift as new centers emerge and old centers decay.

2.2 Global Cities and Islamic Financial Centers

This sub-section reviews the relevant literature concerning global and world cities as well as the geography of Islamic financial centers (or pillars). The discussion of global and world cities begins with Sassen's global city thesis and the impact of globalization on the centralization of advanced producer services (APS). It then transitions to criticisms of the traditional approaches to world city research and demonstrates the need to explore beyond the established hierarchy of cities. The sub-section ends with a discussion of the geography of the IBF network and its major centers.

2.2.1 The Global City and Alternate Systems

The global city thesis posits that these locations are control and command points of the global economy where economic activity and APS locate (Sassen 1991). Cities then are the geographic loci for global production and innovation. Despite the footloose nature of capital and advances in technology and communication that facilitate its movement across borders, cities act as "regional motors for the global economy" (Scott and Storper 2003). The city offers proximity to the highly skilled workers spanning several industries – law, finance, accounting, etc. – necessary to function as a global financial center (Sassen 1999). These urban locations are defined by the presence of APS that represent a key facet of the global economy (Beaverstock et al. 1999). The authors use the presence (and absence) of these advanced producer services to create a hierarchy of global cities that allows for relational comparison. Although APS are a defining feature of global cities, this alone says little about the relationships between cities. Taylor (2004) argues that the transnational linkages between APS constitute a world city network through which information, people, and capital flow. As such, the global city-ness of a world city can therefore be measured by the degree to which it is connected to other cities in the global economy.

However, these approaches to world city research and their subsequent ranking systems are not without detractors, and the methodology and implications have come under significant criticism. For instance, Robinson (2002; 2003) criticizes these rankings, arguing that they simply reproduce a Western-centric view of globalization. She contends that ranking cities based on APS presence marginalizes cities in developing regions by pushing them towards the periphery or omitting them altogether, thereby leaving many cities quite literally “off the map” (Robinson 2002, 535). Similarly, Short (2004) rejects the notion of a binary classification of globalized and non-globalized cities, instead favoring a continuum of “globalizing cities” (45). This, he argues, highlights the desire to come a global city and displays the plethora of cities striving to achieve this status rather than focusing on the few which already have.

More recent literature has furthered the call for research that extends beyond the confines of traditional world city literature. Pollard et al. (2009) criticize the current economic geography approach, which theorizes from a strictly Western paradigm. While there is significant interest in knowledge movement and transfers across the global economy, an overwhelming proportion of this research centers on movement from the West outwards. Therefore, rather than a one-way flow of knowledge, practices, and information from Western institutions to the rest of the world, we must account for the reverse flow from regions not defined as “advanced capitalist economies” to the West (Pollard et al. 2009, 139), and how these reverse flows potentially signal regulatory shifts in Western markets (Pollard and Samers 2013). Investigation of these "postcolonial political-economic geographies" (314) further explore a decentralized view of the global economy and emphasize how a retooling of our understanding of economic geography through a postcolonial paradigm allows for exploration of these distinctly 'other' systems (Pollard and Samers 2007).

One example of an alternative financial system is Islamic finance, which is predicated upon the principles and practices of the Muslim faith (Pollard and Samers 2007). Examination of Islamic finance's form and functions reflect an emerging network of financial centers that do not conform to traditional interpretations of power and connectivity in the world economy (Bassens et al 2010). For example, while Middle Eastern cities are excluded from most financial geographies, they feature prominently as key cities in the network of Islamic finance. Similarly, Bassens et al. (2011a) describe the structure of the Islamic finance sector and its key firms, institutions and markets, the economic and religious rationales driving its global expansion, and the places vying to rule its competitive landscape.

2.2.2 Locating the Cities of IBF

In an attempt to address the Western-centric research practices and explore post-colonial geographies, scholars have become increasingly interested in alternate systems such as IBF. The exploration of IBF, its practices, and geographies, reveals that the industry does not conform to traditional interpretations of power and connectivity in the world economy (Bassens et al 2010). For example, while Middle Eastern cities are excluded from most world city literature, they feature prominently as key cities in the network of Islamic finance. For example, Bassens et al. (2010) find Manama, Bahrain as the “undisputed Mecca” (41) of the industry with 7 of the most globalized firms and 15 of the top 100 firms locating their headquarters in the city. This success is both a function of Manama’s efforts to implement development strategies aimed to diversify beyond oil and the presence of transnational IBF regulatory agencies such as the Auditing Organization for Islamic Financial Institutions (AAOIFI) (Bassens et al. 2010). Other cities, such as Tehran, London, and Dubai, remain heavily connected to the global IBF industry. In terms of *Shari’a* compliant assets, the Middle East, and in particular the Gulf Cooperation Council (GCC)[1] states, account for a significant portion of the geographic distribution, with the GCC countries controlling 41.2% of the global *Shari’a* compliant assets (Bassens et al. 2011a). Outside of the GCC, Non-GCC Middle East and North Africa countries control 38.9% of the global *Shari’a* compliant assets with Iran playing a major role – 6 of the 10 largest IBF institutions are located in Tehran (Bassens et al. 2011a).

While the key cities of IBF operations are found in the Middle East – namely Manama, Tehran, and Dubai – Western global cities have an increasingly important role on the IBF map (Bassens et al. 2010). Conventional finance centers, such as London and New York, are increasingly competing in the market for wholesale Islamic financial products and seek to access the oil capital generated by emerging economies in the

[1] The GCC countries consist of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE.

Muslim world (Bassens et al. 2011a). While the West only accounts for a small percentage of the global *Shari'a*-compliant assets, its share is growing as Middle East-based IBF firms open subsidiaries and branches in Western cities, and fully Islamic banks establish themselves locally, such as the Islamic Bank of Britain. A large part of the growth of Islamic finance in the West is attributable to the creation of IBF windows of large, conventional banks. For example, HSBC's Islamic finance window, Amanah, is the seventh largest IBF institution by *Shari'a*-compliant assets and plays a major role in the global IBF industry (Bassens et al. 2010).

As the industry continues to grow globally, Western cities are becoming a more integral part of the global network of Islamic finance. An analysis of the inter- and intra-firm connectivity of Islamic financial firms shows that London, Paris, and New York feature among the most heavily connected cities in the world (Bassens et al. 2010). Similarly, New York and London are among the most connected cities in terms of interlocking board directorates of SSBs (Bassens et al. 2011b). For London, this reflects the growing demand for IBF products and the major IBF windows. For New York, this is a reflection of institutions such as the Dow Jones Islamic Market Indices and Standard & Poor's IBF indices. As European, American and Asian centers of conventional finance vie for positions in the competitive landscape for global IBF, some more successfully than others, it is clear that they are not merely outposts, but growing competitors in the shifting IBF economy.

2.3 Islamic Finance

This sub-section reviews the early rise and development of Islamic finance. It explores the industry's early conception in Egypt with the establishment *Shari'a*-compliant financial products, and surveys the theological underpinnings of the industry. This discussion helps explain why Muslims felt the need to develop an alternate banking system and further positions the industry as an alternate to the conventional financial system.

2.3.1 Towards Homo islamicus[2]

In its current form, Islamic finance initially started in Egypt in the 1960s but did not formally take off until the 1970s. Following the First International Conference on Islamic Economics in Saudi Arabia (1976), the Dubai Islamic Bank was founded, thereby signaling the beginning of the modern era of Islamic finance (Iqbal and Molyneux 2005). Born out of the Islamism movement – which believes that Islam should direct all aspects of life - IBF seeks to bring Muslims closer to their faith by aligning their financial practices with the tenets of the religion. As conventional finance is a social construction predicated upon human reason, IBF proponents believe it is by nature fallible and subject to errors and shortcomings ('Us̱mānī 1998). However, Islam – which has rules concerning financial transactions and practices – is considered to be divinely inspired and therefore a more perfect system. In essence, the IBF industry

[2] This title is adapted from a paper by Khan et al. (2011) paper entitled *Comparative Analysis of Islamic and Prevailing Insurance Practices.*

attempts to bridge financial practices with the Islamic concept of *justice*, what Iqbal and Mirakhor (2011) define as, "the conceptualization of an aggregation of moral and social values, which denotes fairness, balance, and temperance" (5).

The guidelines and practices for the IBF sector are derived from the principles of *Shari'a* and Islamic law to ensure adherence to the religious teachings of Islam. *Shari'a*, which literally means "the way", is a set of rules and guidelines derived from the *Qur'an* and *hadith* (teachings of the Prophet), comparative arguments used to make rulings (*qiyas*), and unanimous agreement amongst scholars (*ijma*) that govern the way all Muslims should conduct themselves (Khan et al. 2011). For the financial sector, this has several implications. First, IBF prohibits financial constructs that promote interest (*riba*), which Islam deems an unearned gain. The prohibition on interest does not prevent the financial institutions from making a profit, however. Instead of interest, IBF employs a type of contract known as *murabaha*, which is a purchase and resale of a good with a fixed gain specified in advance between the consumer and the financial institution. The firm agrees to purchase the good at market value and sells it to the customer at a previously agreed upon markup cost, thereby avoiding interest payments (Ahmed 2010). Second, the industry promotes a more equitable financial model based on real economic activity (Karasik et al. 2007). This includes prohibitions on speculative activities (*gharar*), trading in derivatives, and trading commodity futures – all of which are keys aspects of IFCs. Third, the IBF framework promotes a profit/loss sharing (PLS) model. In conventional banking, the consumer assumes the majority of the risk and assumes much of the liability if the investment fails, while under the PLS model the firm assumes a larger degree of the liability should the investment fail. In practice, both the bank and the consumer finance the investment together and enter into a joint partnership in which they share the profits or are liable for the losses (El Qorchi 2005). Theoretically, then, PLS allows for a more equitable ownership of the risks of investing and thus provides the bank with a greater incentive to invest wisely (Khan and Bhatti 2008). Lastly, IBF forbids investment in products which are forbidden (*haram*) within Islam – pork, alcohol, tobacco, and certain forms of entertainment. These principles and practices of IBF attempt to shift the focus from the self-interested *Homo economicus* to the morally superior and justice conscious *Homo islamicus* (Khan et al. 2011).

Many IBF advocates believe that the moral underpinnings of the industry provide more stability to the economy. For example, proponents believe that the kind of financial crisis experienced in 2008 – caused by poor investment strategies, the expansion of derivatives, and a belief that some banks were "too big to fail" – would have been avoided under the IBF framework as many of these practices are considered *haram* (Ahmed 2010). Furthermore, proponents argue that construction of a financial system upon shared religious values brings financial institutions and their customers closer together, thereby creating an alternate to the conventional system and a joint incentive for mutual prosperity (Kayed and Hassan 2011).

However, despite these claims, there remains significant disagreement as to whether or not the moral principles of IBF safeguard against financial recessions. By comparing the responses of conventional versus Islamic banks to financial crises, Hidayat and Abduh (2012) find that while the exposure of Islamic banks is temporarily mitigated, they are not immune. Further analysis suggests there is variation in the stability of Islamic financial institutions. Whereas small Islamic banks are more stable than small conventional banks, their larger counterparts are not as stable as large conventional banks (Čihák and Hesse 2010). The authors suggest that this may be due to the type of transactions small and large Islamic banks perform: small banks focus primarily on low-risk transaction while larger banks focus on more risky PLS transactions. More interestingly, they find that small Islamic banks are more stable than their larger counterparts, thereby suggesting that the IBF industry may face additional scaling issues – as the banks get larger their financial instruments become more complex and susceptible to crisis.

Despite branding as a morally- and socially-conscious alternative to conventional finance, there remains significant concern as to the sustainability and societal implications of investments made by IBF firms. Critics argue the difference between conventional and Islamic finance concerns the method through which it is financed rather than the investment itself; meaning that while the financial product is constructed under the principles of Islam, the investments are made in the same high-risk areas (Wilson 2009). In this way, opponents of Islamic finance believe that Islamic finance is more of an "exercise in semantics" (48), which closely mirrors the practices of conventional finance than a moral alternative to the prevailing banking practices (Warde 2004). For example, the GCC countries extend credit in much the same way as their conventional counterparts; thereby, leading to similar credit-related outcomes (Wilson 2009).

2.3.2 Governing Islamic Finance

At the heart of IBF are the individual religious scholars and the institutions that regulate firm activities. Since adherence to the principles of *Shari'a* is a quintessential component of the IBF sector, the ability of a bank to establish credibility and certify compliance remains one of the key aspects of competitiveness and a significant barrier for new firms to enter the market. In conventional finance, credibility is constructed through firm reputation, which Glückler (2007, 953) defines as "the expectation of future performance based on the perception of past behavior". Through this paradigm, reputation is a constructed value based on trust between two parties that a mutually agreed upon action is carried out adequately and efficiently.

In IBF, this credibility has an additional element: credibility of compliance with the religion. Within the industry, it is the *Shari'a* scholars who help financial institutions establish this credibility. These scholars interpret and adapt the laws of Islam through *ijtihad* (best effort through reasoning) to produce formal legal opinions (*fatwas*) that ensure the products and services offered are compliant with the religion. Although the scholars adhere to differing branches of Islamic jurisprudence, Maurer (2003, 326) argues that they are "bricoleurs, drawing from any jurisprudential source, which they deem to be appropriate for a particular problem". Therefore, while the individual scholars adhere to varying schools of Islamic jurisprudence, many of them understand the need to cooperate to develop and issue products that are compliant with the overarching themes of the religion (IIBI 2015).

Islamic financial institutions hire these *Shari'a* scholars to sit on the firms' *Shari'a* Supervisory Boards (SSB). These boards are independent of the firm's corporate structure (have autonomy and no oversight from board of directors), acting as internal auditors of *Shari'a* compliance, and are a prerequisite for admittance to the IAIB (International Association of Islamic Banks) (Rammal 2006). Larger firms have SSBs composed of many individuals while smaller firms have only one advisor. Since the purpose of the SSB is to establish credibility, firms seek out the most well-known scholars and many of these scholars sit on many boards around the world. For example, the world-renowned Bahraini scholar Sheikh Nizam Mohammad Saleh Yaquby sits on at least 49 separate SSBs. An analysis of the interlocking board directorates of SSBs reveals that a small group of about thirteen scholars are responsible for over half of the worldwide interlocks (Bassens et al. 2011b). Due to their small numbers, Bassens et al. (2012, 338) argue that these experts constitute a 'global *Shari'a* elite' similar to the corporate elites of traditional finance. As such, the scholars act as "gatekeepers" to the industry by wielding their power and influence through *fatwas* (Bassens et al. 2012).

Although the *Shari'a* scholars and SSBs have endowed the industry with a degree of religious credibility, significant concerns remain regarding their use. A survey of 60 IBF firms found that only a small minority of scholars possessed both *Shari'a* and common law knowledge (9%) or a *Shari'a* and an economics background (12%) necessary to effectively create financial products (Bakar 2002). This created a problem for the industry as many scholars did not understand the technical language of finance and were therefore unable to provide adequate guidance (Clode 2002). As a result, scholars are today increasingly required to possess both religious and financial knowledge, leading to the development of IBF training centers and operational centers around the world.

Additionally, there is growing concern over the lack of standardization within the industry, as variations due to ambiguity in the interpretation of *Shari'a* compliance leads to competing *fatwas* (Abdel Karim 1990). These competing *fatwas,* understandably, undermine the religious credibility of the industry. Therefore, Islamic financial institutions have sought to overcome this in two ways. First, many SSBs issue separate annual reports for investors about the nature of the firm's IBF compliance, thereby increasing the amount of transparency and disclosure (Abdel Karim 1990). Second, as the industry grows it has developed supervisory regulatory agencies to help harmonize the standards and practices. These regulatory agencies serve two purposes (Jackson-Moore 2009): i) first, they grant a degree of transparency which promotes credibility through access to information and the ability to make informed decisions; ii) and second, they underscore the stability of the institutions and the system itself. Furthermore, these agencies safeguard against what El-Gamal (2007, 187) deems "rent-seeking *Shari'a* arbitrageurs" who receive payment to approve of financial products regardless of their compliance with Islam. The regulatory agencies at the forefront of the regulation movement include Bahrain's Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) – largely considered the premier *fiqh* body (Wilson 2009) – and Malaysia's Islamic Financial Services Board (IFSB) – often called the "Basel Committee for the Islamic World" (Jackson-Moore 2009, 182). While the industry has made great strides to harmonize is practices and rulings, Alexakis and Tsikouras (2009) believe that IBF will continue to undergo rapid change as the industry navigates Western markets, standards, and procedures.

3. DEVELOPMENT OF ISLAMIC FINANCE

This section reviews the development of the Islamic financial industry in one of its leading centers, Bahrain. It traces the growth of the industry in the Gulf and positions the country as both a regional and global leader. The section then transitions to a discussion of the growth of Islamic finance in the West with a particular focus on the United States.

3.1 Islamic Finance in Bahrain

The rise of a globalized IBF sector and the emergence of the GCC as its center can both be traced to the 1973 oil embargo (Bassens et al. 2010). With unprecedented capital surpluses in Saudi Arabia and the other Gulf States, the region's elites looked for alternative investment channels. It is also in the context of these events that we can locate the origins of Bahrain's path to becoming a global capital for Islamic financial services.

Bahrain is a small country of 1.2 million people and whose mainland consists of 590 square kilometers. The country is one of the most highly urbanized states in the world with 89% of its population residing in a city, many of whom live in its capital and largest city, Manama (Central Intelligence Agency 2014). As such, I will use Bahrain and Manama interchangeably throughout the thesis. Bahrain is where oil was first discovered in the Gulf; however, it was also the first of the Gulf countries to run out of oil. This provided the necessary motivation for the country to look at alternative development strategies and to initiate some of the region's first economic diversification strategies (Bassens 2010). Traditionally a pearling economy, Bahrain built on its trade history and its location as gateway to Saudi Arabia to become a hub of regional finance and international Islamic banking. Initially, the country's efforts were directed towards creating an offshore banking center in 1975 – a strategy designed to attract oil surpluses from Bahrain's oil-rich neighbors. This strategy gained momentum when the Lebanese civil war forced the region's investors to look for an alternative to Beirut as the Middle East's banking hub (Wilson 2009).

Islamic finance began in Egypt in the 1960's with the first modern bank -- Dubai Islamic Bank -- opening in 1975. Bahrain soon opened its own Islamic Bank -- Bahrain Islamic Bank -- in 1979 to compete regionally and meet the growing demand for *Shari'a* compliant finance. A key development for Bahrain's IBF aspirations was Citibank's decision to open an Islamic finance window. The bank offered *Shari'a* compliant banking as early as 1983 and finally opened a window in 1996, thereby paving the way for the commercialization of IBF (Wilson 2002). As the Islamic financial industry grew, Bahrain amassed a reputation as one of the industry's emerging leaders. Table 1 (Appendix B) displays the Global Islamic Finance Forum's (GIFF) 2012 report on the competitiveness of leading Islamic financial centers. According to the report, Bahrain ranks among the top three IBF centers – behind only Malaysia and Indonesia – due to its amount of *Shari'a*-compliant products and services, regulatory framework, risk management, and education. However the country's reputation and competitiveness suffers from its comparatively poor 'ease of doing IBF business'. This is likely due to discrepancies between scholars in Southeast Asia, who are considered more liberal, and scholars in the GCC, who are more conservative and do not accept the permissibility of some IBF products created by Southeast Asian scholars (Baker 2011).

Beyond these ranking, though, Bahrain evolved into the "undisputed Mecca" of Islamic finance (Bassens et al. 2010, 41). Three reasons may be offered for this. First, it hosts many of the world's top IBF firms. Although Bahrain's share of regional *Shari'a* compliant assets is relatively low (14.2%) and lags behind many of its neighbors – Saudi Arabia, Kuwait, and the United Arab Emirates (UAE) – the country has a disproportionately high number of headquarters including 15 of the 100 largest firms and 7 of the 23 most globalized firms (Bassens et al. 2011a). Second, Bahrain is highly connected to the international IBF industry through its network of *Shari'a* scholars – more than any other city (Bassens et al. 2011b). Third, the country has attracted Islamic finance due to its stable regulatory environment and position as one of two Muslim countries - Malaysia being the other - where a central financial authority influences the permissibility of Islamic products (Hassan and Mahlknecht 2011). This stable regulatory environment stems from the influence of Bahrain-based regulatory agencies over the Islamic financial industry worldwide (Bassens et al. 2011a). These include the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI, established 1990), the Liquidity Management Center (LMC, established 2003), the International Islamic Financial Market (IIFM, established 2002) and the Islamic International Rating Agency (IIRA, established 2005). Each of these organizations is considered among the premier global regulatory authorities governing all of Islamic finance. AAOIFI, in particular, is considered to be the “most influential international *fiqh* [Islamic jurisprudence] body” (Wilson 2009, 9) and twenty members of its *Shari’a* board are also on the boards of top banks around the world. However, although Bahrain has positioned itself as a hub of IBF, it remains unclear whether this is a product of the country’s willingness to promote the industry or its neighbors’ previous disinclination to do so (Wilson 2009).

Today, Bahrain has a burgeoning financial sector, but challenges remain. First, like all of the countries in the GCC, Bahrain remains heavily dependent foreign labor due to inadequate local human capital. This in turn fuels the inflow of foreign, high-skilled workers to fill labor needs in the country’s financial sector. However, of the GCC countries, Bahrain remains one of the least dependent on foreign labor, second only to Oman. In terms of overall employment, Bahrain’s local population constitutes 18% (LMRA 2010) of the total workforce. The percentage of local employment is higher than that of the UAE (11%), but lower than the GCC average (25%) (CIO 2012). However, in the financial sector, Bahrain’s local employment is 35%, far greater than either the UAE (9%) or the GCC average (29%). This is in part due to the government-implemented nationalization program known as ‘Bahrainization’. Nationalization initiatives – such as Omanization in Oman, Kuwaitization in Kuwait, Saudization in Saudi Arabia, and Emiratization in the UAE – are common in the GCC region. These programs have a shared goal to create post-oil human capital by increasing the employment of national citizens while steadily reducing the reliance on foreign labor in targeted industries.

Moreover, Bahrain's success at nationalizing its workforce also stems from its early adoption of finance in the region, positioning itself as an offshore financial center.

Second, in 2011, Bahrain faced a new challenge to its status as a global center of Islamic finance. The pro-democracy riots of the Arab Spring caused widespread social and political unrest throughout the region and country. In Bahrain, these riots pitted the majority Shi'a population against the minority Sunni monarchy, and this instability has hurt Bahrain's attractiveness as a financial hub. Due to the nature of the sectarian divide, Bahrain found itself at the center of a struggle between the Sunni Gulf states and Shi'a Iran. To quell the rebellion, keep the ruling family in power and prevent Iran from obtaining a foothold in the region, the GCC – lead by Saudi Arabia – crossed the causeway to give military support to the Bahraini government. In doing so, Saudi Arabia reasserted its geopolitical dominance of the GCC and repositioned itself as a counterweight to Shi'a Iran (Sorenson 2011). During the height of the protests, the unrest forced several multinational corporations to temporarily suspend operations. This lead to the downgrade of the country's sovereign rating, which corresponded with a higher cost of business and decline in investor confidence. During this time the Islamic finance sector – still reeling from the recent real estate bubble – suffered greatly. In addition to these internal pressures, Bahrain is facing external competition due to rising regional and global hubs of Islamic finance. Both Doha and Dubai have aspirations of becoming Islamic finance hubs with the latter recently stating its desire to overtake Bahrain as the Mecca of IBF (*Hamdan 2014, April 13)*. Additionally, Buckley and Hanieh (2014) find that as the economy recovers from the financial collapse, regional investors have looked to Dubai, rather than Manama, as a safe-haven for investment. In light of these challenges, Bahrain's once unquestioned status as the Mecca of finance is less certain. The continuing social and political unrest, coupled with rising hubs of IBF could signal a shifting economic architecture.

3.2 Islamic Finance in the United States

While Bahrain stands as the "Mecca" of Islamic finance, the industry has witnessed a period of rapid growth and expansion. Globally, *Shari'a*-compliant assets exceed $1.6 trillion and are projected to reach $2.67 trillion by 2017 (Levitov and O'Donnell 2014). The large potential for growth and vast oil wealth present in IBF has piqued the interest of Western firms and governments. Large, conventional Western financial firms have sought to capture a share of this growing market by opening *Shari'a*-compliant financial windows within their company – for example, HSBC Amanah, Citi Islamic Investment Bank, Standard Chartered Saadiq, etc. Following the lead of these financial firms, IBF in the West gained further traction in October of 2013 when British Prime Minister David Cameron announced the formation of an Islamic bond, known as *sukuk*, at a meeting of the World Islamic Economic Forum in London. The bond, issued in June of 2014 and valued at over $330 million, is the first of its kind issued in a Western country and represents the increasingly global nature of Islamic finance, as well as London's desire to become a key location of IBF as the industry emerges in Western markets. The issuance of the bond fueled the growth of the Western *sukuk* market as Luxembourg, HSBC, and Goldman Sachs all issued bonds to capture a share of the market (Madhani 2014).

While accessing the existing market is in part responsible for the West's interaction with Islamic finance, other factors contribute to its spread. One such factor is the growing Muslim population, both globally and within Western countries. A 2011 Pew Research Center study highlights this growth, noting that the population of Muslims grew at over twice the rate of the non-Muslim population (Pew Research Center 2011). Furthermore, the study projects that the Muslim population will continue to grow at a rapid rate and constitute over one-fourth of the global population by 2030. Although much of this growth will occur in Muslim majority countries, a significant portion will occur in the West. In particular, the study highlights the United States where the Muslim population currently comprises a small percentage of the total population. However, this number is expected to double by 2030, thereby creating a potential local market for Islamic financial products (Pew Research Center 2011). Additionally, this market is especially promising because many Muslims in the United States currently forgo banking altogether because the available options are not in line with their religious beliefs (Shayesteh 2009). Therefore, the expansion of IBF in the US is a potential means of tapping this "unbanked" portion of the populace.

Despite the demand and potential market for the IBF industry, it has struggled to take hold and grow in the United States (Chui et al. 2005). One explanation concerns the regulatory structure of the United States' financial sector as several of the practices and procedures are at odds with those of Islamic finance. For example, Islamic finance's prohibition on *riba* violates regulations requiring a stated return on investment and has made it difficult for IBF institutions to obtain a charter (Taylor 2002). In fact, it was not until 2005 that the first American institution operating entirely under Islamic principles, University Islamic Financial Corporation (UIFC), obtained a bank charter (Sedki and Donahue 2013). While these restrictions have relaxed, there remains a perception that US regulators are uninterested in accommodating IBF (Shayesteh 2009). In order to remedy this, Abdul-Rahman and Tugg (1999) suggest that Islamic finance practitioners in the US should focus on innovations that help overcome these barriers to entering the market, rather than fixating on changing the laws to make entry into the market easier.

In addition to the legal and regulatory barriers retarding the growth of the industry in the country, the US social and political climate – specifically concerning Islam – presents an additional obstacle to further developing the industry. Whereas leaders such as British Prime Minister David Cameron have actively supported the growth of IBF, US leaders have been relatively quiet (Shayesteh 2009). Without a prominent politician championing the values of IBF and actively pursuing its development in the US, the industry has yet to gain traction. However, perhaps more pressing than the lack of support coming from US legislators is the pervasiveness of Islamophobia in the United States following September 11th (Sedki and Donahue 2013). In essence, following the tragedy of September 11th and subsequent terrorist activities by extremist groups such as Islamic State of Iraq and the Levant (ISIL), Islamic finance is subject to "guilt by association" (Warde 2010). This distrust is so pervasive that some individuals have a "feeling that the 'enemy' is deeply 'infiltrated', and that political, indeed terrorist, movements hide behind the façade of religion" (Warde 2010, 217). In this way, some individuals believe that Islamic finance is a means laundering money for terrorism and that proponents of IBF may be intentionally or unintentionally funding terrorism against the United States (Ilias 2008).

These suspicions have prompted groups, such as the conservative think-tank Center for Security Policy, to maintain a Shariah Finance Watch dedicated to "exposing the risks of Shariah finance" (Center for Security Policy 2015). Groups such as this present a significant obstacle for IBF firms, as they must prove a negative: that they have no ties to terrorist organizations (Warde 2004). Despite the cold-feelings the US public harbors towards Muslims (Pew Research Center 2014), and concerns raised by groups like the Center for Security Policy, there is little to no evidence to suggest that IBF institutions are more likely to fund terrorism than their conventional counterparts; however, they are far likelier to be suspected of having terrorist ties (Warde 2010).

4. METHODOLOGY

This thesis utilizes a mixed-methods approach outlined and approved under Texas A&M University IRB Protocol #2011-0873, combining, first, a large-scale, web-based survey conducted with 56 representatives of Islamic finance firms in Bahrain, and second, key informant interviews with 16 representatives from the surveyed firms. Both the survey and the interviews were carried out between February and June of 2014. All of the firms were located in Bahrain's capital and largest city, Manama. The survey pool encompassed both fully Islamic institutions and Islamic windows of conventional financial institutions and was compiled from the Central Bank of Bahrain Register, The Banker's *Top 500 Islamic Financial Institutions 2013* database, and the LexisNexis Academic Research Database.

The survey obtained insight on firm characteristics, locational reputation of cities within the global network of IBF, and additional challenges facing Bahrain in light of the social and political unrest of the Arab Spring. It aimed to draw out the key determinants of competitiveness in IBF; specifically focusing on what it takes to create and sustain a global hub. Once this is established, the thesis combines the data results with the local context of the Arab Spring – gleaned from key informant interviews with individuals selected from the survey respondents – to better understand the challenges facing Bahrain's status as the "Mecca" of Islamic Finance. The interviews utilized open-ended questions, the goal of which being to produce close dialogue with key informants as a means of capturing the organization's learned behavior (Clark 1998; Schoenberger

1991). The interviews were conducted in person and via Skype and LinkedIn in English. Detailed notes were taken during and transcribed after the interviews, but interviews were not recorded due to cultural sensitivities.

The firm level responses covered five separate businesses categories: banks, finance companies, insurance (*takaful*) companies, investment firms, and microfinance institutions. Additionally, the respondents represented both foreign firms (n=15) and local firms (n=18), as well as fully Islamic institutions (n=28) and Islamic windows (n=5). The surveys were distributed to key personnel – managers, executives, board members, *Shari'a* compliance officers, etc. – at each firm in the sample. These individuals were selected because they are the most likely to have knowledge of the businesses' corporate strategies, relationship with other local firms and professional organizations, and hiring and recruitment strategies. Potential survey respondents were identified through the professional networking service, LinkedIn. Survey invitations – available in English – were sent to 285 individuals through the SurveyMonkey website. A total of 56 individuals responded to the survey, representing a response rate of 19.6%. This response rate is greater than or equal to those reported by meta-analyses of web-based survey research as well as other firm-based survey studies (Baruch and Holtom 2008).

Some key characteristics of the surveyed respondents are presented in Table 2 (Appendix B). Almost three quarters of the surveyed firms reported that an overwhelming majority (more than 70%) of their firms' activities were related to Islamic finance. There is a bimodal distribution of firms by year of establishment in Bahrain.

Almost 70% of all Islamic finance firms in Bahrain were established in the last 15 years (1999 through 2014), which corresponds with the second oil boom. Most of the remaining firms were established in Bahrain more than 25 years ago (prior to 1989), which is consistent with the first oil boom. From this, there is evidence that much of Bahrain's development as a central hub of Islamic finance is a product of the oil booms. With respect to the percentage of employees directly engaged in IBF operations, the distribution is relatively even amongst all firms as well as the disaggregation of local and foreign firms. As such, there is evidence that these firms do not necessarily prioritize hiring employees who specialize in IBF. Rather, this highlights the importance of the *Shari'a* scholars and advisory boards. They design, create, and develop the products, while the employees enact the *fatwas*. In this way IBF specialization is not necessary and could partially explain why many employees seem to have experience in conventional and IBF. The skills necessary to carry out Islamic finance are similar to that of conventional banking; the difference resides in the way the products are structured via *fatwas* from the *Shari'a* board.

Following the collection and analysis of data and interviews from Bahrain, a similar study was conducted with Islamic financial institutions in the United States in order to assess the variation in IBF pillar creation and the unique opportunities and barriers facing the construction of an alternate financial system in a center of traditional finance. The database of IBF institutions in the United States consisted of information gleaned from The Banker's *Top 500 Islamic Financial Institutions* 2013 database, the LexisNexis Academic Research Database, and the New York State Department of

Financial Services' bank roster. From July through December 2014, surveys invitations were extended to 119 individuals representing 38 firms. Potential survey recipients were identified through a compilation of firm website contact lists, snowball recruiting methods, and the professional networking service, LinkedIn. A total of 18 respondents representing 15 firms completed the survey, constituting a response rate of 15.1%.

Table 3 (Appendix B) displays the key characteristics of the respondents' firms. From the table, it is apparent that there are significant differences between the surveyed firms operating as fully IBF institutions and as windows of conventional banks. The IBF windows are significantly older than the full IBF firms, but this is not surprising as the first fully Islamic bank to obtain a charter in the United States was UIFC in 2005. Interestingly, both the mean and median year of operation for fully Islamic firms is at or greater than the establishment of the first US-based IBF firm. Two reasons are offered for this. First, the fully Islamic banks encompass both American Islamic banks and foreign Islamic banks. Therefore, while the first American Islamic bank was established in 2005, the sample includes older, foreign firms that later established a branch in the United States. Second, the sample includes several banks that were initially established as conventional enterprises, but transitioned to Islamic finance as the restrictions on obtaining a banking charter eased. Today, many of the fully Islamic banks remain relatively small with a mean and median number of employees of about 20.

4.1 Limitations

As a pilot study, there are a number of limitations to the research that could potentially impact the usefulness of my results and how adequately I can address my research questions. The first limitation to the research concerns the population sample and sampling techniques. Neither the survey results in Bahrain, nor those in the United States are representative of the their respective population. In Bahrain the survey was distributed to an exhaustive list of IBF firms (n=55). Meanwhile, in the United States the survey was distributed to 40 firms, however it is unclear how many firms offer *Shari'a*-compliant products in the country since there is no centralized database – Shariah Finance Watch currently lists 45 firms (Center for Security Policy 2015). Despite these efforts, a non-representative sample of these firms responded to the survey (Bahrain n=36; United States n=15); however, the results from Bahrain are more representative than those of the United States. Part of this stems from the manner in which potential survey respondents were identified. LinkedIn, while an effective means of gathering professional and contact information, is limited to those individuals who actively use the service. Therefore, the potential survey pool consisted only of individuals employed in IBF positions in Bahrain and the United States who also maintain active or semi-active profiles. Although the sample of potential respondents was large and encompassed almost every firm listed in Bahrain and the United States, due to the limited number of individuals on LinkedIn the survey population is not representative and is potentially subject to a degree of selection bias as the individuals who responded were not randomly chosen.

A second limitation of the research concerns the representative nature of the interviewees. As mentioned before, the interviewees were selected from the pool of survey respondents. Since the survey respondents are not representative of IBF firms in Bahrain or the United States, it follows that the interview responses are not either. Further, the interviewees were not randomly selected from the survey respondents. Instead, invitations were sent to all respondents and interviews were conducted with those who accepted the invitation. Therefore, the interview responses potentially carry an element of selection bias as well. Despite these limitations, this research has much to offer. As a pilot study, the survey and interviews shed light on a previously unresearched area. While the results are potentially non-representative of the IBF firm populations in Bahrain and the United States, the information obtained from this research forms the basis of future lines of inquiry. Most importantly, this pilot study will allow me to develop testable research hypotheses which can be explored in depth with more rigorous methods.

5. LOCATIONAL DETERMINANTS OF ISLAMIC FINANCIAL CENTERS IN BAHRAIN

This section covers the survey results related to locational determinants of Islamic financial centers. It explores the key factors identified by the surveyed associated with Bahrain's continued success and offers a global perspective of reputation within the global Islamic finance industry. Table 4 (Appendix B) shows some of the important factors that influence these firms' decision to locate key IBF activities in a city or country. Human capital, in the form of skilled labor, rates as the greatest determinant of whether these firms decide to locate in a city or country. A large proportion of respondents (88%) selected the availability of skilled employees as one of the most important factors, as well as the importance of available skilled personnel in Islamic finance and law (90%). Additionally, respondents noted that human capital, in the form of *Shari'a* scholars able to issue fatwas and certify the legitimacy of products, remains important. 92% of respondents noted 'Available *Shari'a* product service certification' is an essential factor determining a firm's location strategy. Similarly, access to the "gate-keepers" (Bassens et al. 2012, 341) of the industry who certify the products remains high with Bahrain scholars (82% of respondents) and scholars in other GCC countries (82%) both rating highly.

In addition to human factors, the survey gained insight on the aspects of the business environment necessary for locating in a city or country. From Table 4, 'trustworthy relationships with regulatory institutions' is the second most important factor with 80% of respondents expounding its importance. Similarly, the establishment of credibility in Islamic finance operations (94%) and the presence of established *Shari'a* laws (90%) underscore the importance of regulatory oversight and presence of existing IBF standards to the survey respondents. Surprisingly, the results show that hard infrastructure factors – considered key determinants of urban competitiveness (WEF 2013) – are among the least important factors determining the surveyed firms' decision to locate in a city or country. Comparatively, only 80% of survey respondents believe that an adequate telecommunications infrastructure is an important determinant while the presence of reputable Islamic universities (76%) and proximity to other financial firms (59%) remain the least important factors. However, this is not to imply that infrastructure does not matter, but rather these firms locate in Manama for its access to world-class scholars, international regulatory agencies, and existing IBF sector.

The survey also explored the most important skill sets germane to the day-to-day operations of Islamic finance. From Figure 1 (Appendix A), it is evident that surveyed firms place a premium on communicative skills. This includes written and verbal skills (88%), interpersonal skills (88%), and teamwork (82%). Interestingly, firms placed a higher premium on knowledge of Islamic finance and accounting (86%) than they did on knowledge of *Shari'a* (79%). Since issues concerning *Shari'a*-compliance are handled by a firm's SSB, it may not be essential that employees outside of the SSB understand the complex religious underpinnings. Among the lowest rated skills by these firms are marketing (63%), math and statistics (58%), and computer programing, which 20% rated as unimportant.

From Figure 2 (Appendix A), it is evident that surveyed firms are searching both locally and internationally for talented individuals; however, there appears to be a strong bias towards hiring locally. This preference towards hiring locally can be explained in two ways. One explanation is that Bahrain has trained and produced the local talent necessary to form, expand, and maintain a central hub of Islamic finance. The second is that Bahrain has successfully accessed the global circulation of knowledge and captured the human capital necessary to maintain its hub. The local hiring then stems from the circulation of this knowledge between firms.

One aspect of the survey targeted the locational reputations of leading centers of global IBF industry. Table 5 (Appendix B) displays the reputation of both foreign and local firms with regards to Manama, Kuala Lumpur, Dubai, Doha, London, and Singapore. Kuala Lumpur has a reputation as the leader in IBF innovation, likely as a result of its influence and innovation in the global *sukuk*. Similarly, Manama also has a reputation for IBF innovation stemming from the presence of regulatory agencies and prominent scholars such as Sheik Nizam Mohammed Saleh Yaquby, who is considered one of the foremost and heavily connected *Shari'a* scholars in the world (Bassens et al. 2011b). Both Kuala Lumpur and Manama maintain a reputation for excelling in Islamic finance and law education – 76.5% and 68.6% respectively. Kuala Lumpur has previously been identified as a leading center of *Shari'a* education and is home to the University of Malaysia, one of the top IBF universities (Bassens et al. 2012).

According to the survey respondents, Manama has the reputation for being the leader in *Shari'a* guidelines and information, and Islamic resolutions and parameters.

This is likely due to the presence of international regulatory agencies situated in the city. Figure 3 (Appendix A) displays the regulatory memberships of Bahrain-based firms. It is immediately apparent that many of these international regulatory agencies are located in Malaysia and Bahrain, reaffirming the importance of these centers as leaders in the global Islamic financial industry. These institutions include the AAOIFI, the IIFM, the IIRA, and the General Council of Islamic Banks and Financial Institutions (GCIBFI). The AAOIFI, in particular, has a strong influence in Bahrain with over 85% of the surveyed firms reporting an active membership. As mentioned before, AAOIFI is arguably the leading *fiqh* board and seeks to harmonize Islamic financial practices though: i) developing the theory and thinking for Islamic financial transactions; ii) distributing these best practices, research, and training techniques to the appropriate institutions; iii) creating and disseminating accounting and auditing standards and practices for the industry; and iv) reviewing current practices and adjusting them as necessary (AAOIFI 2015). Additionally, Malaysian regulatory agencies, such as the IFSB, maintain some influence in Bahrain. The importance of these regulatory institutions cannot be overstated as they serve two purposes: i) the transparency they provide breeds credibility through access to information to make informed decisions; ii) their presence underscores the stability of the institutions and the system itself (Jackson-Moore 2009).

Interestingly, despite the duopoly in reputation enjoyed by Manama and Kuala Lumpur, survey respondents highlighted Dubai as possessing the greatest reputation in regards to conferences and seminars. Dubai's proclivity for urban spectacle and mandate to become a global hub of Islamic finance has powered the city's growing reputation for hosting such conferences. Manama also has a reputation for conferences and seminars and is the location of the annual World Islamic Banking Conference; however, this may be changing. The Senior Manager of one local bank believes the ongoing unrest has triggered a change and that, "With regards to Islamic Financial centers, all type of conferences related to Islamic banking shifted to UAE, Qatar and KSA."

6. CHALLENGING BAHRAIN'S ROLE AS "MECCA"

Although Bahrain has positioned itself as a leading center of Islamic finance and the industry's undisputed Mecca, the future of this status remains uncertain. Upon completion of the survey, each respondent was contacted for a follow up interview to gain further insight on his/her answers, Bahrain's role in the global urban network of Islamic finance, and the challenges facing the city to maintain its role. Of the 56 respondents to the original survey, 16 individuals accepted the interview invitation. The results of the interviews will be presented starting with a discussion of Bahrain's enduring success as a global Islamic financial hub and finishing with a discussion of challenges to Bahrain's status as the undisputed Mecca of Islamic finance.

Although the Arab Spring swept through parts of North Africa and Southwest Asia began in late 2010, it was not until early 2011 that it reached Bahrain. In February, protestors converged on Pearl Roundabout near the financial district in the heart of Bahrain's capital, Manama. While the government quelled the ensuing protests and riots with help from neighboring states, the social and political unrest presented potential challenges to the country's business climate. However, despite these fears, some of the respondents did not believe that the Arab Spring had a noticeable impact. The Head of the Treasury at one foreign bank noted:

> "…regional unrest impacted growth and development in the region in general rather than Bahrain specific issues. As part of this region, Bahrain has been normally impacted by geopolitical instability… However, as the global markets

> improved and regional issues softened, Bahrain has naturally picked up in terms of economic and financial development."

Rather than a Bahrain-specific problem, this representative believes that the region, as a whole, was directly impacted by the events of the Arab Spring. However, as the social and political unrest has tapered off, the region, and by extension Bahrain, has recovered and is performing at similar levels or better levels than before. Within Bahrain, many of the respondents I interviewed believed that the country's resilience alleviated much of the potential concerns. The Head of Business Operations at one of the local investment firms offered:

> "…political stability is the backbone of any healthy economy… The Bahraini government is forward-looking and also has created a competitive financial center of Middle East… Although there was a period of unrest that affected the economy, the financial industry has bounced back and is growing as a result of active support from the government"

Although the protests of the Arab Spring and ongoing social and political unrest aimed to reform the government and remove its leaders from power, this individual believes that it is the government's resilience and forward thinking that has not only helped create a global center of Islamic finance, but also sustain it through the current crisis.

In addition to a forward thinking government, the firm representatives highlighted the importance of regulatory structures in location strategies. One financial manager of a foreign bank believes that this is one of Bahrain's greatest strengths:

> “…the real success of the Islamic finance sector is dependent largely on regulatory oversight and proactiveness. I feel that the Central Bank of Bahrain is more proactive and pragmatic in its approach … that will play a crucial role in retaining Bahrain's strong regional advantage.”

Within Islamic finance, regulatory oversight plays an important role in establishing the credibility of products certified as *Shari’a* compliant. Bahrain has had a large degree of success in establishing the credibility of its Islamic financial industry as many of the most prestigious and influential IBF regulatory agencies and scholars reside in Manama. For this individual, the role of Bahrain’s Central Bank and the country’s regulatory agencies have been extremely important in establishing and maintaining a global hub of Islamic finance and will allow the country to remain a prominent fixture in the global IBF landscape.”

However, despite the praise for the government and regulatory agencies and positive outlook for Bahrain’s future as a center of Islamic finance, not all representatives shared this optimism. The Distribution Director of a foreign company noted:

> “… political instability has damaged Bahrain in a major way as Bahraini and non-Bahraini companies look to other GCC centers for their business… If in doubt, there are other places worldwide in which to invest. Banks and insurers have all suffered from the lack of investment… much of this is based on the external viewpoint rather than what is actually going on”

He believes that the ongoing political instability has had an impact on foreign companies, particularly when it pertains to business location. The above quote demonstrates how perception becomes reality as businesses actively choose to relocate from Bahrain and companies look to competing urban centers within the region in hopes of eliminating what one respondent termed "…an extra pillar of risk – geographical and political risk of the [bond] issuer."

While the geographic pillar of risk presented by the Arab Spring may impact the locational strategies of companies by either forcing them to relocate or to avoid Bahrain all together, it has also impacted the business that have remained. The Senior Vice President of one bank explained:

> "The larger corporate names that were planning to issue *sukuk* this year stopped or postponed their projects due to the lack of government focus and stability to make such decisions to drive the economy."

According to the interviewee, the ongoing uncertainty over the political climate in Bahrain and its subsequent impact on the business environment has deeply impacted firm decisions. In the presence of such uncertainty, some firms choose to divest from the country or shift operations across political borders to safeguard their investments while the remaining firms are hesitant to issue new financial products.

Although interviewees believe the Arab Spring has impacted the IBF sector in Bahrain, either temporarily or long term, many of the respondents agreed that the political and social unrest alone has not challenged Bahrain's centrality in the Islamic finance hierarchy. Rather, these events have added to underlying issues that threaten to undermine the country’s role. The Chief Operating Officer of one foreign bank believes that the unrest is overstated and has been misrepresented by the media:

> “the unrest as such has not played any significant role in Bahrain losing out to Dubai in terms of Islamic financial center. However, the initial negative image created by the media has scared a number of institutions into moving out of Bahrain and has created a gap of skilled and experienced bankers.”

For this individual, Bahrain’s struggles to remain the premier Islamic financial hub are not a result of the regional and local unrest. Rather, he believes that the perception of unrest perpetuated by the media is greater than the actual unrest in the country. However, this perception has created a skill and knowledge gap as many institutions have either left Bahrain or avoided it all together in favor of areas that are deemed to have greater political and social stability. In wake of the 2011 protests, Standard & Poor (S&P) downgraded Bahrain’s sovereign rating, thereby increasing the cost of business in the country. Following the social unrest caused by the Arab Spring, the Central Bank of Bahrain’s annual report highlights an 11.3% decrease in total assets (Central Bank of Bahrain 2011). Although the retail sector experienced an increase of 2.8%, the wholesale banks suffered greatly with losses of 17.2%. Despite this, there has not been a wide spread exodus of firms from Bahrain, although firms such as Credit Agricole and Bank of Tokyo-Mitusbishi have shifted their operations to Dubai (French 2013). Instead, business has largely returned to normal with firms such as Gulf International Bank and Ahli United Bank posting growing profit margins (Hancock 2011). However, although the country’s economy has bounced back from both the financial crisis and the political and social unrest, both Moody's and S&P have projected a negative outlook for the country's future over fears of resurgent political turmoil (Standard & Poor's 2011; Moody's Investor Service 2011).

The skill and knowledge gap has deep implications for Bahrain's future as a center of Islamic finance. As one representative of a major foreign firm noted, local schooling standards are falling, thereby giving foreign firms a disincentive to hire graduates. These sentiments were echoed by the Chief Operating Officer of another foreign firm:

> "The main reason for Bahrain suffering in terms of development as a financial center is the lack of skilled, experienced and visionary bankers with depth of knowledge and understanding to grow and develop the industry and products."

In addition to fewer qualified applicants as a result of declining schooling standards, Bahrain's small cadre of capable, skilled Islamic bankers are insufficient to sustain the country's financial sector. This inadequate access to human capital threatens Bahrain's dominance as a center of Islamic finance as it cannot account for the rising demand for *Shari'a* compliant assets.

In light of the financial crisis, inadequate human capital and the Arab Spring, many respondents believe that the landscape of Islamic finance may be shifting. One Chief Executive Officer explained:

> "The political situation that took place in 2011 has caused new investors in Islamic institutions to avoid opening in Bahrain… although the unrest was not significant and life goes on, you do not see anything; however, normally as you

know investors are sensitive to any unrest even if it is minor as the issue involves taking risk... The political unrest has caused a number of financial institutions both Islamic and conventional to move their operations to Dubai and to close down their offices in Bahrain… The emergence of Qatar as a substitute location for Bahrain, and the ease of approval to open a financial institutions, as well as Dubai with strong government support to open Dubai for financial institutions, and their plans to make it world class Islamic Financial center."

In this individuals view, risk averse financial institutions are divesting from Bahrain and relocating to competing regional locations – namely Doha and Dubai – that offer greater political and social stability. The country's weakened position has created a power vacuum in which regional cities are competing for a larger market share.

Some of the interviewees noted that rising challenges from regional competitors may continue to undermine Manama's dominance of Islamic finance both globally and regionally. The Chief Investment Officer of a local bank believes that maintaining Manama's dominance may be impossible:

"…we cannot compete and fight off with the new ambitious Dubai and Qatar for attracting new Islamic banks, the size of Islamic banks in Dubai and Qatar are much bigger than Bahrain, and they have the natural reasons for growing any business, stability, growth, surpluses, good infrastructure, support, huge local and foreign investments, where in Bahrain we have nothing to attract these investors as they are all coming from the other Gulf States and their banks now are doing

> better than Bahraini banks and even more sophisticated, therefore what will make them come to Bahrain with all these negative factors!"

Rising hubs of Islamic finance in the region have given birth to large multinational IBF firms that threaten Bahrain's role as the industry leader. This CIO believes that social and political stability coupled with advancements in infrastructure, which in turn has generated foreign investment and created a favorable economic environment, gives these locations an advantage over Manama. Historically, Bahrain has been the *de facto* regional banking center for both Islamic and traditional finance. However, this may be changing as regional hubs such as Dubai and Doha develop their own systems able to compete with Bahrain by offering greater stability and access to human capital.

7. ISLAMIC FINANCE IN CENTERS OF TRADITIONAL BANKING

This section explores the survey results related to creating and sustaining pillars of Islamic finance and compares and contrasts the findings of US firms with those of Bahrain. Table 6 (Appendix B) displays the most important factors for choosing a location to create key Islamic finance activities. Similar to Bahrain, US surveyed firms highlighted the importance of human capital as a key element of locating firm operations in a place. Respondents highlighted both the availability of skilled employees in general (100%) and the availability of skilled personnel in Islamic finance/law (89%) as key determinants as to whether their firm should locate in a place. In addition, the telecommunications infrastructure (78%) and trustworthy relationships with regulatory institutions (89%) both rated highly. Telecommunications has previously been described as a key element of urban competitiveness (WEF 2013), while relations with regulatory agencies help reinforce consumer confidence that the products are in line with *Shari'a* principles and guidelines.

Although the similarities between Bahrain and US firm rankings are important, it is perhaps more interesting to note the differences. While the Bahrain results demonstrate the importance of established *Shari'a* laws (90%), and access to Bahrain (82%) and GCC based scholars (82%), the US results are notable for their comparative lack of emphasis on these factors – 50%, 38%, and 33% respectively. The stark difference between US and Bahrain respondents may be a product of the industry's maturity in both countries. Bahrain has an established Islamic banking tradition and the firms located in the country prioritize access to reputable scholars and established Islamic banking laws. Meanwhile, the Islamic finance industry in the United States is still in its infancy and these firms appear more concerned with obtaining the human capital necessary to perform day-to-day operations. Lastly, it is important to note that surveyed firms do not seem as concerned with accessing the Middle East market with 78% of respondents rating it as important. Despite the region's thriving market and vast oil wealth, it appears that these firms are more concerned with cultivating a local, homegrown market than accessing existing ones overseas.

Figure 4 (Appendix A) reveals that, similar to those in Bahrain, surveyed firms in the United States are searching everywhere for talent. These firms demonstrate a strong preference towards locally available talent; however, this preference is far greater than Bahrain's. Whereas the bias towards locally available talent in Bahrain is a product of accessing global talent and the circulation of this knowledge between local firms, the US bias towards locally available talent stems from training and producing local workers. In this way, the US benefits from a comparative advantage in locally developed and trained workers.

In addition to where the IBF firms are searching for talent, the survey gathered insight on the type of talent and skill sets that these firms place a premium on. Figure 5 (Appendix A) displays the most important skill sets highlighted by the respondents. From the table, it is clear that US-based firms place a high importance on critical and analytical thinking (87%) and problem solving skills (87%). Similar to Bahrain, the US-based firms underscored the importance of communicative skills with interpersonal skills (87%), written and verbal communication skills (80%), and teamwork (73%) all rating highly. While knowledge of Islamic finance and accounting maintained a similar importance as teamwork (both at 73%), knowledge of *Shari'a* continues to be less important (60%).

In addition to firm hiring preferences and factor that determine where firms choose to locate their Islamic finance operations, the survey also gained insight on the locational reputation of leading IBF pillars by US firms, reported in Table 8 (Appendix B). Similar to the results from Bahrain, US firms highlighted the importance of Bahrain as one of the industry's leaders. According to the survey, Bahrain has the greatest reputation for both global leadership for *Shari'a* guidelines and information (67%) and Islamic resolutions and parameters (67%). This perceived reputation reinforces the country's role as one of the premier regulators of Islamic finance and underscores the importance and influence of Bahrain's Islamic finance scholars. However, based on the responses, US firms may not believe that Bahrain is the "undisputed Mecca" of the Islamic finance industry. Instead, it appears that Dubai, rather than Bahrain, has the greatest regional and global reputation across all of the metrics. US firms reported that Dubai has the greatest reputation for innovation in Islamic finance (56%), Islamic finance and law education (67%), technical publications (71%), and conferences and seminars (89%), perhaps signaling the city's ascension as a global player in the industry. Perhaps most telling is that respondents rated both Dubai and Kuala Lumpur very highly for Islamic finance leadership (78%), while rating Bahrain lowly (33%). Despite its tradition placement at the apex of Islamic finance, Bahrain's decreased reputation for leadership, coupled with the rise in leadership from Dubai and Kuala Lumpur may be symptomatic of ongoing social and political unrest threatening to undermine its position in the global Islamic finance industry.

Lastly, Figure 5 (Appendix A) displays the respondents' membership to the leading international regulatory agencies. Although many of the firms demonstrated little membership to the leading regulatory agencies, two important points arise. First, half of the surveyed firms are members of Bahrain's AAOIFI and the regulatory continues to remain among the global leaders. Second, over 25% of the firms reported being members of the Forum for Sustainable and Responsible Investment (US SIF). The presence of an American regulatory agency might underline the importance of local regulatory agencies to supplement the overarching, influential international agencies; however, further research is needed.

8. OPPORTUNITIES, CHALLENGES, AND BARRIERS TO IBF IN THE UNITED STATES

As the United States continues to carve out a share of the global Islamic finance market and develop a local market at home, several barriers still remain. Following the aggregation of the survey data, I contacted many of the leading Islamic finance practitioners, scholars, and legal experts in the United States to expand on the survey findings and position the experience of Islamic finance in a Western center within the global context of the industry. Six individuals accepted interview invitation and the findings of these conversations are presented starting with a discussion of the opportunities and barriers to developing IBF in the United States. It continues by exploring the perceived impact of Islamophobia on the domestic growth of the industry and finishes with a discussion of the future of IBF in the United States.

Although Islamic finance in the United States formally started in 2005, it has yet to really take hold and grow. During the interview process, several of the interviewees offered insight into why this might be and discussed how their firms became involved in Islamic finance. One founder of an Islamic financial firm explained that his business was not initially set up to serve the local market. Instead, he says, “we were initially set up as an international business first, and a domestic business second. Rather than opportunistic, we were driven by our investors’ interests in response to oil windfalls”. He further explained that while his firm is located in New York, the entirety of his early business was overseas in the Gulf States. However, he chose to locate in New York because “[it] is the epicenter of the finance industry. Despite this, it is still hard to be a firm on the fringe. You have the connections and infrastructure and we consider New York part of our value added”.

Throughout the interview process, I had the opportunity to discuss how firms operating in the United States develop *Shari'a*-compliant product. One Islamic finance entrepreneur demonstrated how his company takes a grassroots approach to this process:

> “Right now we determine what products to offer through reverse inquiry. The community asks about a specific product, and then we research it and work through the potential issues to figure out how to structure it”.

Whereas the founder of the aforementioned bank constructed and issued products in response to foreign demand, this individual's firm issued products through local community powered demand. Regardless of the type of demand powering the issuance of products, both firms certified their products in the same manner:

> “We have a *Shari'a* board who oversees all paperwork. We outsource it to a branch of our Islamic bank and they provide us with guidance and insight. This is important because we risk damaging the credibility of both the firm and the products if we aren't compliant with the religion”.

Interestingly, many of the interviewees agreed that certification of *Shari'a*-compliance is a quintessential element of their firms' operations; however, many of the survey respondents did not believe that access to reputable scholars in the Middle East or Southeast Asia was of top priority.

The discussion of *Shari'a* scholars and certification did, however, provide insight into one of the major barriers facing the US industry. Many of the surveyed and interviewed firms are small compared with their international counterparts. As such, these firms are more sensitive to the costs associated with accessing the preeminent scholars necessary for establishing credibility. One respondent highlighted this issue noting:

> "As a commercial enterprise, cost becomes a factor. We outsource [*Shari'a* input] to firms with standardized products who have a great reputation and can provide these services at a low costs. However, we still use big scholars for certain products, but this is on a case by case basis and they are very expensive".

This presents a significant barrier to small US-based IBF firms because they must balance the cost of retaining these scholars with the expertise necessary to certify a product and establish credibility. Another respondent argued that the existing pool of reputable scholars is too scarce and this creates several problems:

> "There is a need for this strong leadership at the *Shari'a* level to guide firms through the process of creating products. They need to be credible and have lots of experience to underscore the credibility of the firm and products – without them the industry won't succeed. Due to their finite nature, the existing scholars are overwhelmed and there is a need for more people who are able to opine on matters related to finance and *Shari'a* law. More importantly, there is a shortage of scholars with education in Western economic practices and this presents a

problem. I would like to build around an up and coming scholar, but sadly the US does not have any."

For this individual the scholars present two barriers to entry in the market. First, the limited number of scholars creates a problematic demand. These scholars are highly sought-after and there is currently too much demand for too few individuals, thereby leading to high retainer costs and an ever-growing pile of work. Second, many of the scholars only have training in Islamic jurisprudence and therefore lack the necessary training to help certify Western financial products.

While Islamic finance faces a number of obstacles to further development in the United States, all of the interviewees noted the impact of Islamophobia. Following Al Qaeda's attack on September 11, 2001, the United States has been plagued by a general distrust towards the Muslim population (Pew Research Center 2014). Further attacks on the Madrid train system in 2004, the London bus system in 2005, the Boston Marathon bombing in 2013, the recent Charlie Hebdo attacks in Paris, and the atrocities carried out by ISIL have further fueled the anti-Islamic sentiment in the US. Members of the US public are wary of Islamic finance as they suspect the industry has ties to fundamentalist terrorist groups (Center for Security Policy 2015). The CEO of one firm believes this has impacted the industry, noting:

> "People hear what they want to hear. I have been accused of so many things because of my involvement with Islamic finance. Ultimately, banks have a responsibility to monitor their activity and know their clients. Because of the

American experience with terrorists, it gives [Islamic finance] a bad name. There is definitely an element of Islamaphobia"

For this individual, Islamic finance suffers from what Warde (2010) deems "guilt by association". The CEO informed me that he has received numerous threats over the years stemming from his firms association with *Shari'a*-compliant products. One expert shared that these threats are not uncommon:

> "The anti-Islamic fervor in this country is very real and Islamophobia was a large concern. We were concerned about threats issued to our group and had to constantly watch over our shoulder."

Despite the anti-Islamic sentiment, the interviewees agreed that the US has a role to play in the industry and Islamophobia and distrust of the industry can be overcome. One New York-based financier explained:

> "… there is a suspicion of Islamic finance and it's very significant. To combat this it is the responsibility of the bank to know its customers and even its customer's customers. In order to grow the industry further, we need to overcome perceptions associated with Arab and Islam in New York. This can be achieved through adequate planning, regulatory oversight and increased transparency."

The financier believes that the most effective means of combating these views is to ensure that the bank is fully aware of its customers and is able to relay that confidence to the public. The aforementioned CEO echoed these feelings, noting that the best way of insulating a firm is to be proactive and understand the clientele. Interestingly, while both individuals agreed that transparency and regulatory oversight could help overcome this significant barrier, the survey respondents did not rate these factors highly.

As Islamic finance continues to evolve in the United States, the interviewees were asked about its future. While the future of the industry in the United States remains uncertain, one interviewee was optimistic:

> "You go where the market is, and there is definitely one here in New York. New York City doesn't need to be a hub and I don't believe it ever will be, but that doesn't mean there isn't significant demand or that the city doesn't have a role to play."

The interviewee believes that the multiculturalism present in US cities, and in particular New York, will help power demand and fuel the growth of the domestic market. However, this does not mean that the city will become, or even should become, one of the prominent global hubs. Similarly, the CEO of one firm cautioned against aspirations of becoming a global pillar for IBF:

> "There is this heresy of bigger is better, bigger is more successful. This is just a fallacy. Islamic finance [in the US] is small and should not have delusions of something grander. Simply put, there isn't enough demand to sustain a firm domestically that focuses on Islamic finance. In the US, Muslims do not identify as strongly as other places. As such, Islamic finance will not be anything more than a cottage industry because the affinity for it is just not there. This is very different than the British experience"

For this individual, the growth of IBF in the United States will continue, but this growth will be limited by the domestic demand. While some firms may supplement their domestic market with foreign customers, the United States will not become a significant global player in the industry.

9. CONCLUSIONS

This thesis sought to move beyond the established metrics for examining the competitiveness of financial centers as outline in the traditional world city literature. In particular, it utilized firm surveys and interviews with key actors responsible for performing the functions of the global city in order to elicit new understandings of the challenges associated with creating and sustaining Islamic financial centers. The subsequent findings explored how specialized financial centers emerge and evolve in response to international competition and local political crisis, thus highlighting the dynamic nature of the global urban financial landscape.

Although touted as the undisputed Mecca of Islamic finance, the survey of IBF firms and close dialogue with key informants suggests that Bahrain's dominance is under review. The country has been undoubtedly successful in establishing one of the primary centers of the global IBF industry. The survey results reveal many of the locational determinates of firm location, as well as Bahrain's ability to satisfy these factors. Bahrain's local content of world-renowned *Shari'a* scholars able to provide guidance and certify financial products endows the country with a distinct competitive advantage that represents a key factor of firm location strategy. Additionally, the presence of IBF firm headquarters and international Islamic finance regulatory agencies such as the AAOIFI and the IIFM have made the country an attractive location. The presence of these organizations and the open business environment crafted by the forward-thinking Central Bank of Bahrain has at least helped to prevent a broad exodus of IBF firms located from the country.

Despite Bahrain's success in the Islamic finance sector, its ability to remain the industry leader has fallen under serious question. The financial crisis of 2008 and the ongoing social and political unrest sparked by the Arab Spring have created local challenges to the country's business climate. Regardless of the reality, the perception of instability resulting from the Arab Spring has impacted business decisions in Bahrain. Several firms have chosen to divest from the country by either closing down local subsidiaries, suspending operations, or shifting operations to more stable countries within the GCC. Additionally, the interviewees believe that firms that chose to remain in Bahrain and continue operating have been negatively affected as the uncertainty has prevented several firms from issuing new financial products.

However, the challenges to Bahrain's place at the pinnacle of the IBF industry extend beyond the social and political factors. While respondents highlighted access to skilled human capital as the most important determinant of business location, many of the IBF representatives highlight Bahrain's shrinking supply of experienced, highly skilled Islamic financial professionals. This gap between the country's supply of human capital and the demand of IBF firms for adequately skilled employees threatens to undermine the industry. Additionally, increasing competition from global and regional centers of IBF poses a serious challenge to Bahrain's dominance. Rising centers such as Doha and Dubai have seized the opportunity presented by Bahrain's shortcomings and many of the IBF representatives noted that there is little the country can do preserve its dominance.

While the future viability of Bahrain as a regional and global IBF center remains unclear in the face of these challenges, financial centers, in general, are remarkably resilient once established (Fratianni and Spinelli 2006). Despite this stability, however, these centers are not immune to decline. In fact, evolutions and revolutions characterize and define the history of finance, as centers rise and fall. As these financial centers rise and fall, the best practices and policies are bequeathed from one center to the next. In this way, the succession of financial centers are emblematic of what Fratianni (2009) deems the “long evolutionary chain of finance” (251). In this way, Bahrain’s rise (and possible decline) could be symptomatic of a larger evolution of Islamic financial centers. While the future of Islamic finance remains uncertain, the geographic landscape of its centers will almost certainly continue to shift as new centers emerge in the global economy and old centers decay.

The thesis also examined the geographic decentering of IBF as new centers – particularly those in the West – emerge and compete in the global market. The construction of these pillars of Islamic banking in traditional financial centers emphasizes the increasingly global nature of the industry. Similar to Bahrain, US respondents highlighted the universal importance of skilled employees and individuals with knowledge of Islamic finance and law as key factors for IBF operations. However, unlike the “Mecca” of Islamic finance, the US-based firms did not rate access to leading scholars in the GCC very highly. Since IBF in the US remains in its infancy, there may be a premium on skilled workers and those with knowledge of Islamic finance and law as these individuals carry out the day-to-day operations of the firm. In this way, accessing foreign *Shari'a* expertise remains a fringe factor as fewer firms are concerned with establishing credibility via leading scholars. US respondents further differ from their Bahraini counterparts concerning how they obtain highly skilled and knowledgeable workers. Whereas the Bahrain-based firms rely on the region's ability to attract foreign knowledge and circulate it between local firms (Ewers 2013), US-based firms have a plethora of talent readily available via the American university system.

Perhaps more interesting than differences in factors for the location of IBF-related activities between the two countries, is the discrepancy concerning locational reputation of leading IBF pillars. Firms in Bahrain overwhelmingly selected Manama as having the greatest reputation for Islamic finance related activities; thereby, underscoring the city's position as the industry leader. While American firms acknowledged Manama's reputation as a center for *Shari'a* guidelines – likely an outcome of the country's reputable international regulatory agencies – they do not view Manama as the industry's leader. Instead, the American firms highlighted Dubai as possessing the greatest locational reputation, perhaps signaling a shift in geography of IBF and undermining Bahrain's dominance. This potential shift is lent further credence by the absence of Manama from those cities with reputations for Islamic finance leadership and the high reputations of both Kuala Lumpur and Dubai.

Although the IBF industry in the United States has made significant progress since formally establishing a fully *Shari'a*-compliant financial institution in 2005, there remain a number of significant barriers. First, interviewees highlighted the need to work with regulators to remove legislative barriers preventing the issuance of certain Islamic financial products. Part of this involves standardizing the *fatwas* underpinning many of these products; however, this challenge is not unique to the United States. Second, several of the interviewees believe the key to the growth of IBF in the United States centers around the development of reputable, home-grown scholars. One of the primary challenges facing US-based IBF firms is access to the prominent scholars necessary to certify the compliance of their products. Due to their finite numbers, these scholars are often inundated with requests from banks around the world and charge significant fees for their expertise. The development of young, ambitious scholars with international reputation could go a long ways towards enhancing the credibility of the US market and fostering the growth of the industry. Lastly, all of the experts highlighted the issue of Islamophobia as the greatest barrier to growth in the US. In this way, Islamic finance is guilty by association with extremist terrorist groups (Warde 2010), and the general cold-feelings towards the Muslim population in the US (Pew Research Center 2014). While the interviewees shared mixed predictions about the future of IBF in the United States, the interviewees agreed that remedying these issues would help spur the growth of the industry.

The pilot study at the center of this thesis research consisted of two very different Islamic finance experience. The Bahrain portion of focused on an established pillar of the industry and the unique challenges facing the country's ability to maintain its position in light of the ongoing social and political unrest. In particular, the pilot study's findings help create the groundwork for what it takes to create and sustain IBF pillars. Meanwhile the case of the US explored the emergence of newer pillars of IBF within existing centers of conventional banking. As a non-Muslim majority country, the rise of IBF in the United States represents the decoupling of Islamic finance from Muslim majority countries as the industry extends its global reach and become further integrated in the global economy. In this way, the rise and possible decline of Bahrain as a financial center in light of domestic issues and regional competition, as well as the spread of this alternative financial system to the United States represents a decentering of Islamic finance as well as a shift in the global financial architecture, emblematic of what Bassens (2012) deems a transition towards a "multipolar model of global finance" (348) in which more places compete in the global financial economy."

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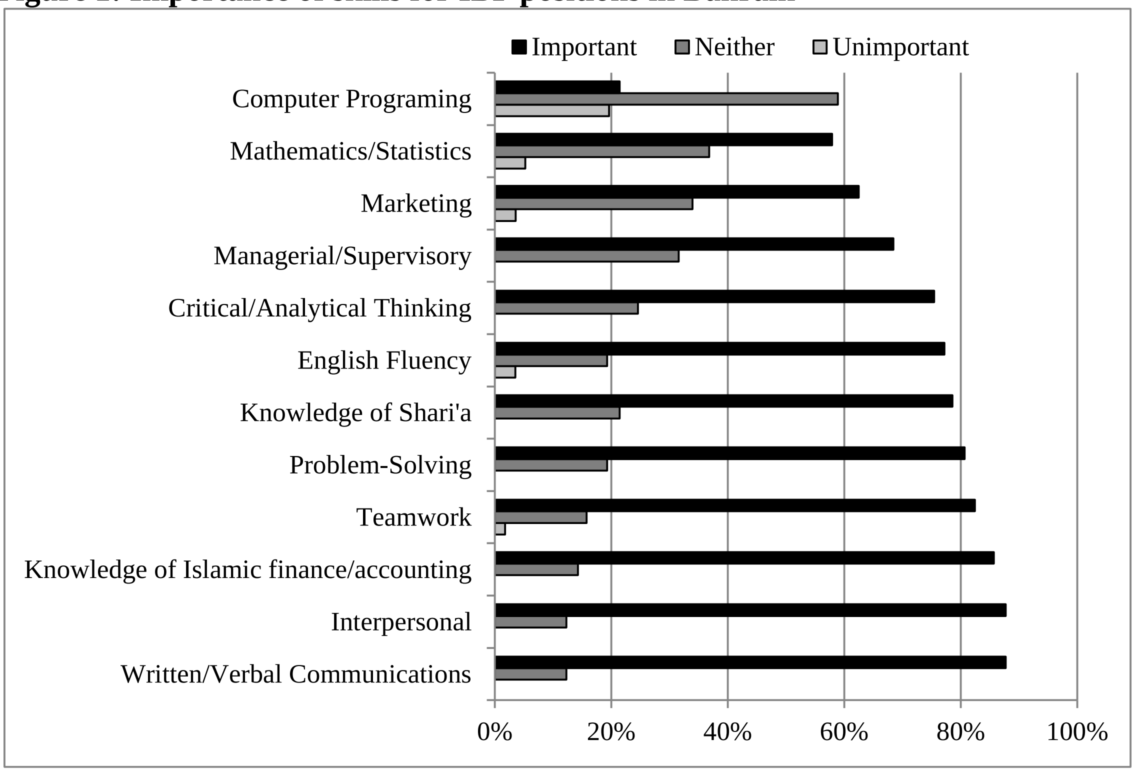
APPENDIX A

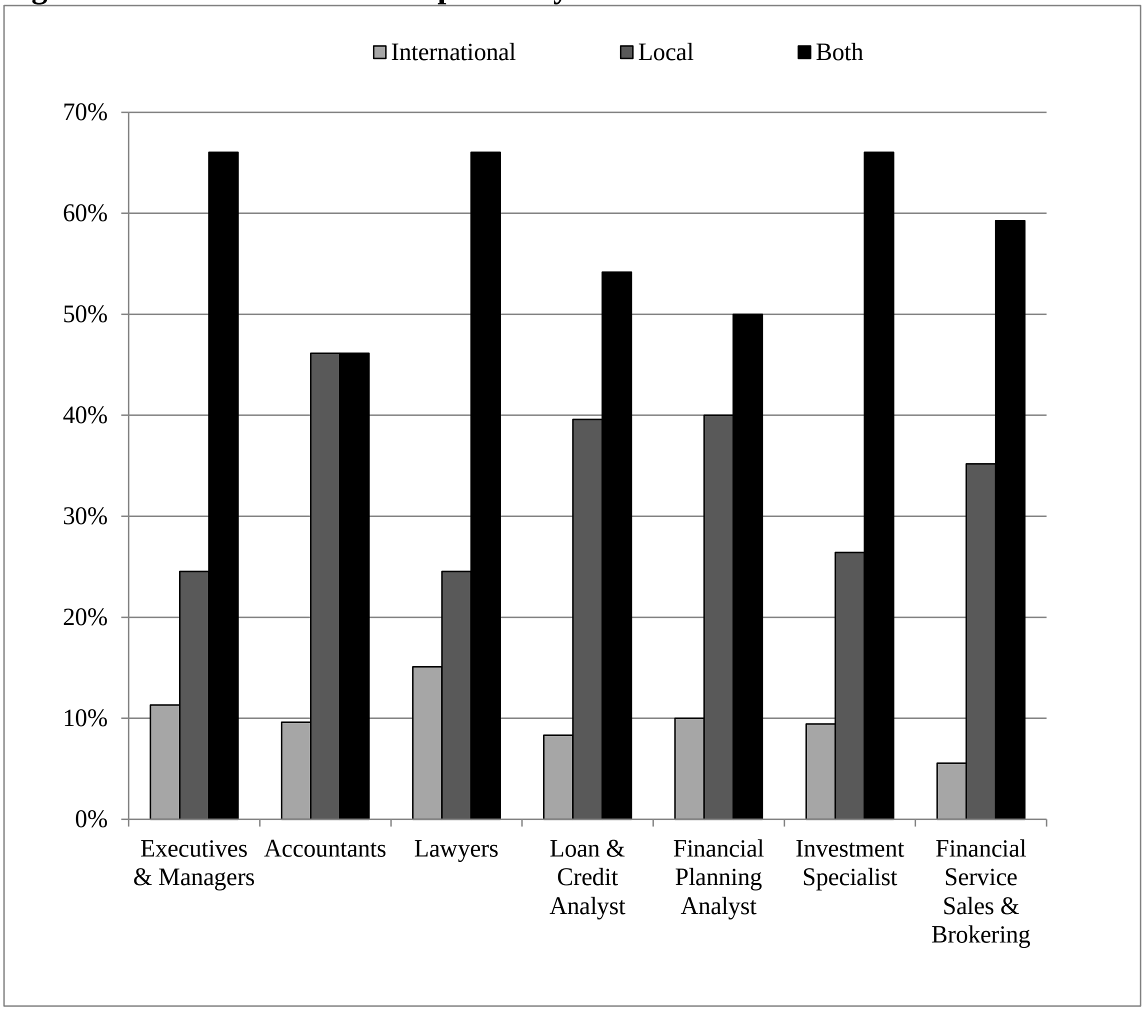
FIGURES

Figure 1: Importance of skills for IBF positions in Bahrain



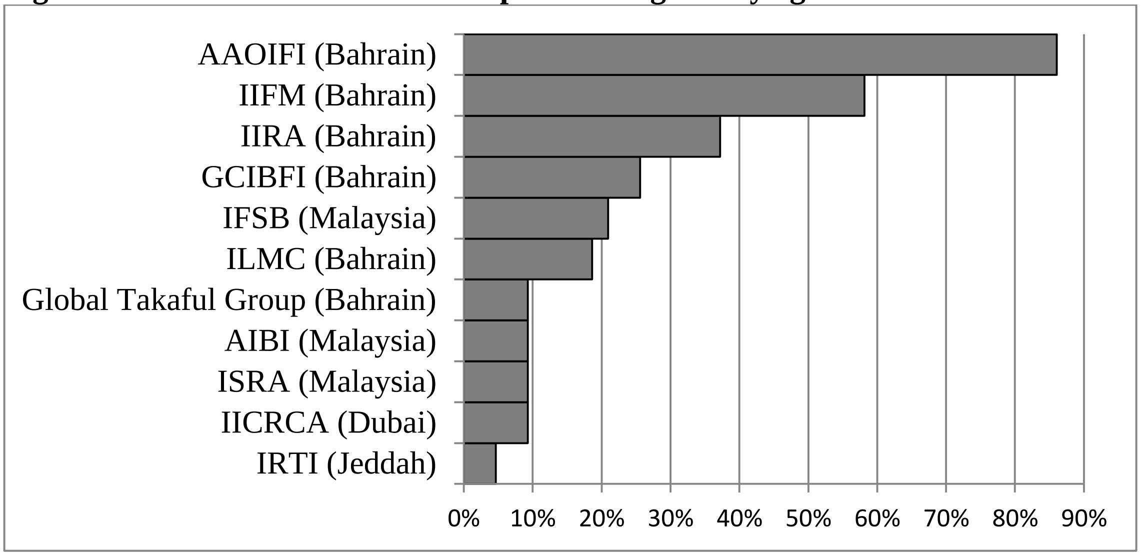
Source: Author's survey

Figure 2: Where Bahrain firms primarily search for hires



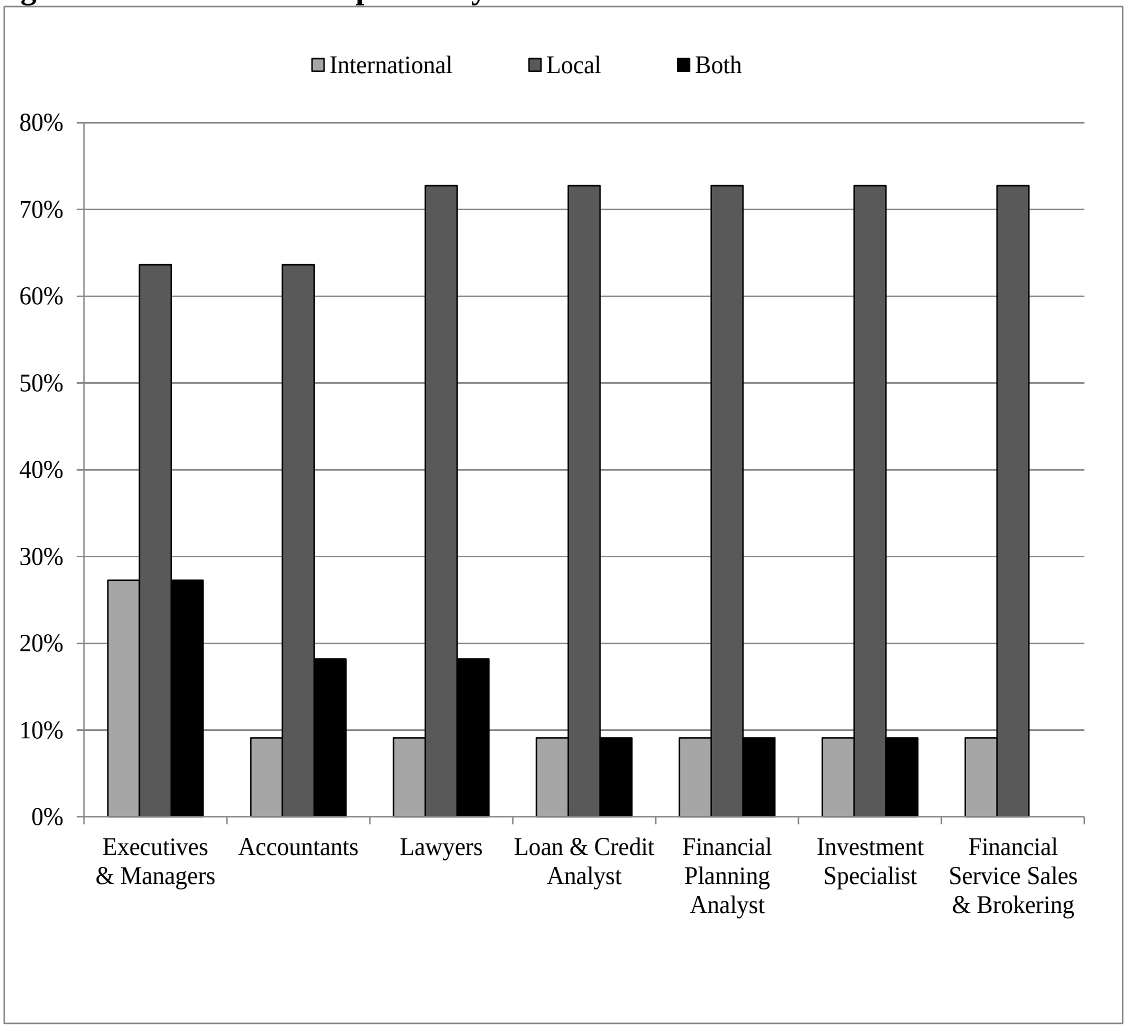
Source: Author's survey

Figure 3: Bahrain firms' membership to IBF regulatory agencies



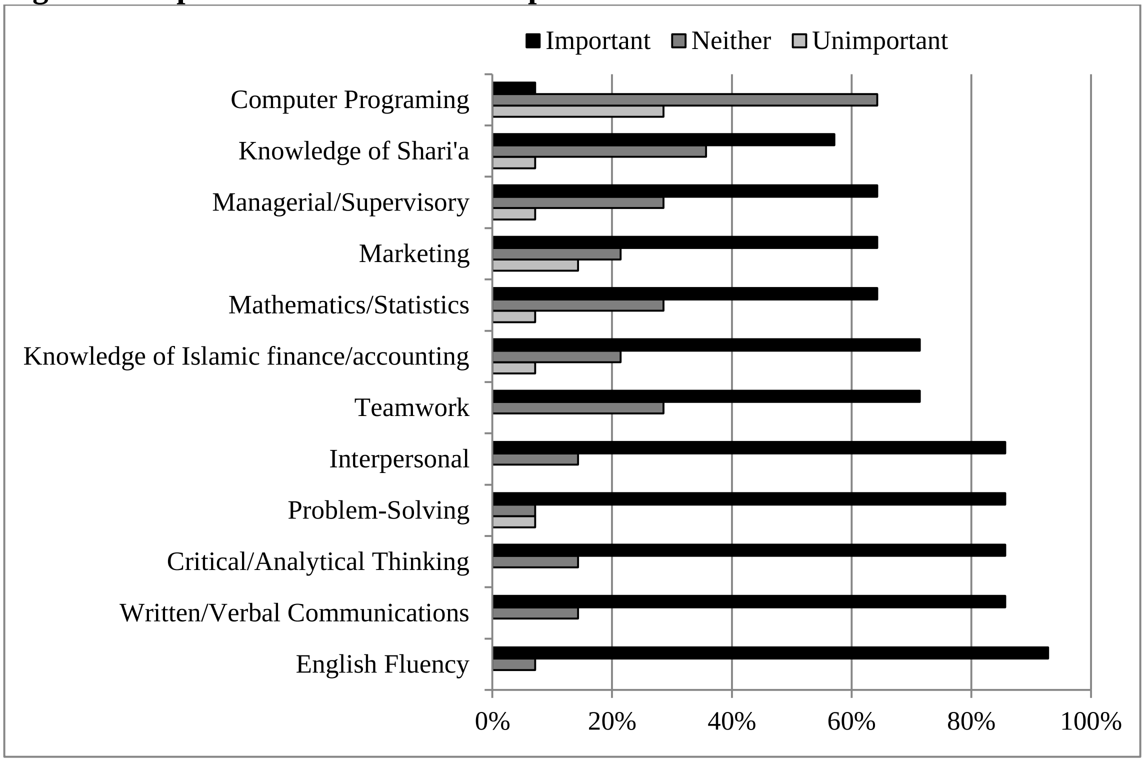
Abbreviations may be found in the NOMENCLATURE section. Source: Author's Survey

Figure 4: Where US firms primarily search for hires



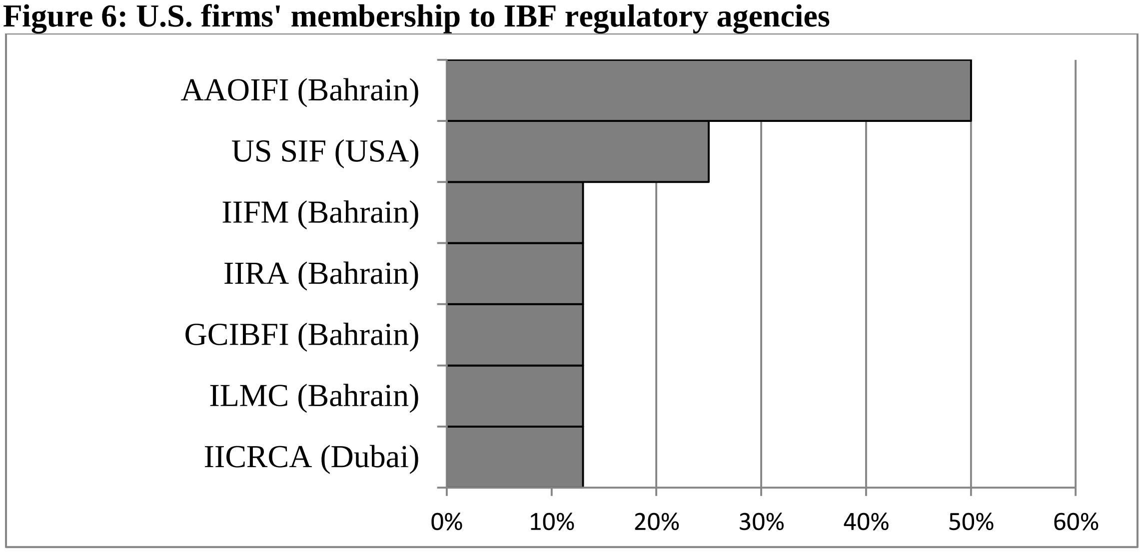
Source: Author's survey

Figure 5: Importance of skills for IBF positions in the United States



Source: Author's survey

Figure 6: U.S. firms' membership to IBF regulatory agencies



Abbreviations may be found in the NOMENCLATURE section. *Source: Author's survey*

APPENDIX B

TABLES

Table 1: The competitiveness of leading Islamic financial centers

Country	Overall Ranking	Regulation	Products and Services	Infrastructure	Ease of doing IBF business	Risk Management	Statistic, Marketing, and Education
Malaysia	1	1	1	1	1	T1	1
Indonesia	2	2	3	2	8	8	T5
Bahrain	3	3	4	6	7	4	2
Brunei	4	4	T5	8	4	T1	4
Pakistan	5	5	2	7	T2	6	T5
UAE*	6	6	8	4	T9	7	T7
Qatar	7	7	7	9	T2	3	10
Bangladesh	8	9	T5	5	6	5	T7
UK	9	10	9	3	5	9	3
Kuwait	10	8	10	10	T9	10	9

*Includes the DIFC

Source: GIFF 2012

Table 2: Characteristics of respondents' firms in Bahrain

	Foreign		Local		Total	
Number of respondents	27		29		56	
	Mean	Median	Mean	Median	Mean	Median
Years of operation in Bahrain	15.67	11	17.14	12	16.43	11.5
% Employees specializing in IBF	50.96	60	48.69	40	49.79	47.5
% of IBF specialists with a university degree	83.52	90	74.52	90	78.69	90
Number of employees	1246.44	300	206.11	62.5	696.83	68
% Activities related to IBF	64.70	85	75.16	85	70.12	85

Source: Author's survey

Table 3: Characteristics of respondents' firms in the United States

	Window		Full	
Number of respondents	8		10	
	Mean	Median	Mean	Median
Years of operation	42.38	25	12.44	10
% Employees specializing in IBF	11.75	10	82.78	80
% of IBF specialists with a university degree	60.14	100	98.33	100
Number of employees	2305.25	25.5	20.88	20
% activities related to IBF	10.81	2.5	71.60	85

Source: Author's survey

Table 4: Importance of locational factors for Bahrain firms

	Unimportant	Important
Credibility in Islamic finance operations	6%	94%
Available *Shari'a* product/service certification	8%	92%
Availability of skilled personnel in Islamic finance/law	10%	90%
Trustworthy relationships with regulatory institutions	10%	90%
Established *Shari'a* laws	10%	90%
Availability of skilled employees in general	12%	88%
Access to Middle East market	16%	84%
Islamic financial underwriting support	16%	84%
Access to Bahrain Islamic scholars & advisors	18%	82%
Access to GCC Islamic scholars & advisors	18%	82%
Government support for R&D	20%	80%
Low corporate taxes	20%	80%
Liberal regulations for Islamic financial transactions	20%	80%
Telecommunications infrastructure	20%	80%
Intellectual property protection	24%	76%
Reputable Islamic universities	24%	76%
Proximity to non-Islamic banks/insurance firms	41%	59%

Source: Author's survey

Table 5: Reputation for leading IBF centers based on Bahrain-based firms

	Kuala Lumpur	Manama	Dubai	Doha	London
Conferences and Seminars	57%	73%	76%	8%	25%
Islamic resolutions and parameters	59%	76%	35%	8%	10%
Technical publications	59%	47%	27%	6%	29%
Islamic finance leadership	63%	71%	37%	10%	16%
Shari'a guidelines and information	51%	86%	24%	12%	6%
Islamic finance/law education	76%	69%	27%	10%	24%
Innovation in Islamic finance	73%	61%	35%	10%	25%

Source: Author's survey

Table 6: Importance of locational factors for US firms

	Unimportant	Important
Availability of skilled employees in general	0%	100%
Intellectual property protection	11%	89%
Availability of skilled personnel in Islamic finance/law	11%	89%
Proximity to non-Islamic banks/insurance firms	11%	89%
Trustworthy relationships with regulatory institutions	11%	89%
Telecommunications infrastructure	22%	78%
Low corporate taxes	22%	78%
Credibility in Islamic finance operations	22%	78%
Access to Middle East market	22%	78%
Government support for R&D	33%	67%
Available *Shari'a* product/service certification	33%	67%
Islamic financial underwriting support	33%	67%
Access to GCC Islamic scholars & advisors	44%	56%
Established *Shari'a* laws	50%	50%
Liberal regulations for Islamic financial transactions	56%	44%
Access to Bahrain Islamic scholars & advisors	63%	38%
Reputable Islamic Universities	67%	33%

Source: Author's survey

Table 7: Reputation for leading IBF centers based on US-based firms

	Kuala Lumpur	Bahrain	Dubai	London	Singapore	New York
Conferences and Seminars	67%	67%	89%	56%	22%	0%
Islamic resolutions and parameters	56%	67%	44%	22%	11%	0%
Technical publications	43%	57%	71%	57%	14%	0%
Islamic finance leadership	78%	33%	78%	44%	22%	11%
Shari'a guidelines and information	56%	67%	56%	22%	0%	0%
Islamic finance/law education	56%	33%	67%	67%	0%	22%
Innovation in Islamic finance	33%	33%	56%	56%	11%	22%

Source: Author's survey

APPENDIX C

IRB INFORMED CONSENT DOCUMENTS

C-1: Informed Consent Document (Interviews)

Title of Research Project: Building Epistemic Capital: The Rise of an Islamic Wall Street in Malaysia and Bahrain

You are being invited to take part in a research study being conducted by Texas A&M University and asked to read this form so that you know about this research study. The information in this form is provided to help you decide whether or not to take part. If you decide to take part in the study, you will be asked to sign this consent form. If you decide you do not want to participate, there will be no penalty to you, and you will not lose any benefit you normally would have.
This consent form explains the research study. Please read it carefully. Ask questions about anything you do not understand. If you do not have questions right now, you should ask them later if any come up.

PURPOSE: You are invited to participate in a research project that seeks to identify the elements that contributes to the development of Bahrain's Islamic Financial Center.

PROCEDURES: About 50 mid-level and upper management employees of banks, insurance, investment companies, shariah scholars, shariah lawyers will be asked for an interview. The interview will either be conducted face to face or electronically depending on convenience. This process should take less than an hour to complete. You are free not to answer any questions you do not wish to answer. You may withdraw from the study at any time

CONFIDENTIALITY: The researchers will ensure that all participant confidentiality will be safeguarded. All proper names will be replaced by pseudonyms/codes. The only connection between your participation in this study and the study itself will be this signed consent form but there will be no association between your identity and the information you provide in the interview. Your identity will not be made a part of any published findings resulting from this study. The research notes will be destroyed within 1 year of the date of the interview.

RISKS: The only known risk of participating in this survey is that of an accidental breach of confidentiality. However, this risk is minimized by the procedures used for collecting and rendering all data anonymous and assigning numerical codes. Participants are free to withdraw at any time and to refuse to answer particular questions.

BENEFITS: There are no anticipated direct benefits to you for participating in this study.

COMPENSATION: There is no compensation provided for participation in this study.

WILL INFORMATION FROM THIS STUDY BE KEPT PRIVATE? The records of this study will be kept private. No identifiers linking you to this study will be included in any sort of report that might be published. Research records will be stored securely and only Dr. Ewers will have access to the records.

Information about you will be stored in locked file cabinet; computer files protected with a password. This consent form will be filed in an official area.

Information about you will be kept confidential to the extent permitted or required by law. People who have access to your information include the Principal Investigator and research study personnel. Representatives of regulatory agencies such as the Office of Human Research Protections (OHRP) or (if FDA regulated) the Food and Drug Administration (FDA) and entities such as the Texas A&M University Human Subjects Protection Program may access your records to make sure the study is being run correctly and that information is collected properly.

JOINING OF YOUR OWN FREE WILL (VOLUNTEERING FOR THE STUDY): Your participation is voluntary. You do not have to answer every question and may refuse to answer any questions that you do not want to answer. You may withdraw from the study at any time by contacting the investigator and all data that can still be identifiably attributed to you will be withdrawn by the investigator. You will be given a copy of this consent document.

FOR QUESTIONS ABOUT THIS RESEARCH, CONTACT:
This study is being conducted by Dr. Michael Ewers at Texas A&M University. Any questions, concerns or complaints that you may have about this study can be answered by Dr. Ewers at his email address (mewers@geog.tamu.edu) or phone (01.979.862.8419) or physical address Dr. Michael Ewers, Department of Geography, Texas A&M University, Room 810, Eller O&M Building, College Station, Texas 77843-3147.

For questions about your rights as a research subject; or if you have questions, complaints, or concerns about the research and cannot reach the Principal Investigator or want to talk to someone other than the Investigator, you may call the Texas A&M Human Subjects Protection Program office.
Phone number: (979) 458-4067
Email: irb@tamu.edu

SUBJECT STATEMENT:

By printing my name below, I acknowledge I have read the explanation provided to me. I understand that I voluntarily agree to participate in this study by completing the interview with the researcher.

I understand that my consent to be in this research is granted in one of two ways. I can verbally give consent for the interview. Or I can print out and sign this form and send it by regular mail to Dr. Michael Ewers, Department of Geography, Texas A&M University, Room 810, Eller O&M Building, College Station, Texas 77843-3147.

C-2: Informed Consent Document (Survey)

Title of Research Project: Building Epistemic Capital: The Rise of an Islamic Wall Street in Malaysia and Bahrain

You are being invited to take part in a research study being conducted by Texas A&M University and asked to read this form so that you know about this research study. The information in this form is provided to help you decide whether or not to take part. If you decide to take part in the study, you will be asked to sign this consent form. If you decide you do not want to participate, there will be no penalty to you, and you will not lose any benefit you normally would have.
This consent form explains the research study. Please read it carefully. Ask questions about anything you do not understand. If you do not have questions right now, you should ask them later if any come up.

PURPOSE: You are invited to participate in a research project that seeks to identify the elements that contributes to the development of Bahrain's Islamic Financial Center.

PROCEDURES: About 100 mid-level and upper management employees of banks, insurance, investment companies will be asked to complete a survey. This process should take less than half an hour to complete. You are free not to answer any questions you do not wish to answer. You may withdraw from the study at any time. When completed, you have the option of emailing the survey back to the investigator at mewers@geog.tamu.edu) or mailing the survey to Dr. Michael Ewers, Department of Geography, Texas A&M University, Room 810, Eller O&M Building, College Station, Texas 77843-3147.

CONFIDENTIALITY:
The researchers will ensure that all participant confidentiality will be safeguarded. All proper names will be replaced by pseudonyms/codes. The only connection between your participation in this study and the study itself will be this signed consent form but there will be no association between your identity and the information you provide in the interview. Your identity will not be made a part of any published findings resulting from this study. The research notes will be destroyed within 1 year of the date of the interview.

RISKS: The only known risk of participating in this survey is that of an accidental breach of confidentiality. However, this risk is minimized by the procedures used for collecting and rendering all data anonymous and assigning numerical codes. Participants are free to withdraw at any time and to refuse to answer particular questions.

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Information about you will be stored in locked file cabinet; computer files protected with a password. This consent form will be filed in an official area.

Information about you will be kept confidential to the extent permitted or required by law. People who have access to your information include the Principal Investigator and research study personnel.

Representatives of regulatory agencies such as the Office of Human Research Protections (OHRP) or (if FDA regulated) the Food and Drug Administration (FDA) and entities such as the Texas A&M University Human Subjects Protection Program may access your records to make sure the study is being run correctly and that information is collected properly.

JOINING OF YOUR OWN FREE WILL (VOLUNTEERING FOR THE STUDY): Your participation is voluntary. You do not have to answer every question and may refuse to answer any questions that you do not want to answer. You may withdraw from the study at any time by contacting the investigator and all data that can still be identifiably attributed to you will be withdrawn by the investigator. You will be given a copy of this consent document.

FOR QUESTIONS ABOUT THIS RESEARCH, CONTACT:
This study is being conducted by Dr. Michael Ewers at Texas A&M University. Any questions, concerns or complaints that you may have about this study can be answered by Dr. Ewers at his email address (mewers@geog.tamu.edu) or phone (01.979.862.8419).

For questions about your rights as a research subject; or if you have questions, complaints, or concerns about the research and cannot reach the Principal Investigator or want to talk to someone other than the Investigator, you may call the Texas A&M Human Subjects Protection Program office.
Phone number: (979) 458-4067
Email: irb@tamu.edu

SUBJECT STATEMENT:
By printing my name below, I acknowledge I have read the explanation provided to me. I understand that I voluntarily agree to participate in this study by sending this completed survey to the researcher.

I understand that my consent to be in this research is granted in one of two ways. I can imply my consent by sending back the completed survey. Or I can print out and sign this form and send it by regular mail to Dr. Michael Ewers, Department of Geography, Texas A&M University, Room 810, Eller O&M Building, College Station, Texas 77843-3147.